

MSME Umbrella Programme

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Policy and Scheme Analyses

- **Institutional Mechanisms for SME Promotion**
- **Strategy Paper for the Sustainable Economic Development of MSMEs**
- **Scope & Approach of DC MSME Schemes: Development of an Impact Assessment Framework**
- **Study for setting up Setting up National Center for Quality Testing (NCQT)**
- **MoMSME Scheme Analysis and Simplification: International Cooperation Scheme**

Institutional Mechanisms for SME Promotion

- ▲ A Comparison of India with
International Practices



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Abbreviations

| | |
|-------------|---|
| APEX-Brazil | Brazilian Trade and Investment Promotion Agency |
| APIITCO | Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. |
| BNDES | Brazilian Development Bank |
| BNDESPAR | Equity Arm of BNDES |
| CAPART | Council for Advancement of Action and Rural Technology |
| CGC | Credit Guarantee Corporation Malaysia Berhad |
| CGTMSE | Credit Guarantee Trust for Micro and Small Enterprises |
| CIA | Central Intelligence Agency |
| CORP. | Corporation |
| DC-MSME | Office of the Development Commissioner Micro, Small and Medium Enterprises |
| DDTC | Design, Development and Training Centre |
| DFI | Development Finance Institution |
| DGEI | Directorate General of Enterprises and Industry |
| DSBS | Dynamic Small Business Search |
| DST | Department of Science and Technology |
| DTI | Department of Trade and Industry |
| EPC | Export Promotion Council |
| EDU | Enterprise Development Business Unit |
| EG | Exempli gratia |
| EIB | European Investment Bank |
| EIF | European Investment Fund |
| ERDF | European Rural Development Fund |
| ESF | European Social Fund |
| EU | European Union |
| FIEO | Federation of Indian Export Organisations |
| FSA | Financial Services Agency |
| GDP | Gross Domestic Product |
| GIZ | Gesellschaft fuer Technische Zusammenarbeit (German Technical Cooperation) |
| IIE | Indian Institute of Entrepreneurship |
| ISTSL | India SME Technology Services Ltd. |
| IT | Information Technology |
| ITDP | Industrial Technology Development Programme |
| ITPO | India Trade Promotion Organisation |
| JASMINE | Joint Action to Support Microfinance Institutions in Europe |
| JEREMIE | Joint European resources for Micro and Medium Enterprises |
| KAIARI | Korea Association of Industry Academy and Research Institutes |
| KIDCO | Karnataka Industrial Development Corporation |
| KODIT | Korea Credit Guarantee Fund |
| KOTEC | Korea Technology Finance Corporation |
| KOTRA | Korea Trade Investment Promotion Agency |
| KRW | Korean Won |
| KVIC | Khadi and Village Industries Commission |
| LTD | Limited liability company |
| MAFISA | Micro-Agricultural Financial Institute of South Africa |

| | |
|----------------|--|
| MDIC | Ministry of Development, Industry and Foreign Trade |
| METI | Ministry of Employment, Trade and Industry |
| MGIRI | Mahatma Gandhi Institute of Rural Industrialisation |
| MoA | Ministry of Agriculture |
| MoCF | Ministry of Chemicals and Fertilizers |
| MoCI | Ministry of Commerce and Industry |
| MOEA | Ministry of Economic Affairs |
| MoF | Ministry of Finance |
| MoFPI | Ministry of Food Processing Industries |
| MoIIT | Ministry of Industry and Information Technology |
| MoLE | Ministry of Labour and Employment |
| MoMSME | Ministry of Micro, Small and Medium Enterprises |
| MoP | Ministry of Power |
| MoST | Ministry of Science and Technology |
| MoT | Ministry of Textiles |
| MSE | Micro and Small Enterprises |
| MSMEs | Micro, Small and Medium Enterprises |
| MTDC | Malaysian Technology Development Corporation |
| N/A | Not available |
| NDRC | National Development and Reform Commission |
| NIESBUD | National Institute for Entrepreneurship and Small Business Development |
| NIMSME | National Institute for Micro Small and Medium Enterprises |
| No. | Number |
| NSDC | National SME Development Council |
| NSIC | National Small Insurance Corporation |
| OECD | Organisation for Economic Cooperation and Development |
| ORCA | Online Representations and Certifications Application |
| PM | Prime Minister |
| PPP | Public Private Partnership |
| PRC | People’s Republic of China |
| R | South African Rand |
| R&D | Research and Development |
| RM | Malaysian ringgit |
| SAMAF | South African Micro-Finance Apex Fund |
| SAWEN | South African Women’s Entrepreneurship Network |
| SBA | Small Business Administration Small Business Act for Europe |
| SBC | Small and Medium Business Corporation |
| SBDC | Small Business Development Corporation |
| SBIR | Small Business Innovation Research |
| SDRS | Small Debt Resolution Scheme |
| SEBRAE | Brazilian Micro and Small Business Support Service |
| SEDA | Small Enterprise Development Agency |
| SFC | State Finance Corporation |
| SIDBI | Small Industries Development Bank of India |
| SMBA | Small and Medium Business Administration |
| SME | Small and Medium Enterprises |

| | |
|--------------|---|
| SMEA | Small and Medium Enterprise Administration |
| SMERA | Small and Medium-sized Enterprise Rating Agency of India |
| SMME | Small Medium-sized and Micro- enterprises |
| SMRJ | Organisation for Small and Medium Enterprises and Regional Innovation |
| SSAS | Sector Specific Assistance Scheme |
| SSIDC | State Small Scale Industries Development Corporations |
| STTR | Small Business Technology Transfer |
| SVCL | SIDBI Venture Capital Limited |
| TEO | The Enterprise Organisation |
| TWIB | Technology for Women in Business |
| UNIDO | United Nations Industrial Development Organisation |
| US | United States |
| USA | United States of America |
| VAT | Value Added Tax |

Executive Summary

Context

In January 2010, the Prime Minister’s Task Force on Micro, Small and Medium Enterprises (MSME) published a report which identified key issues affecting Indian MSMEs and included recommendations on the way forward. One of these recommendations was to consider the feasibility of establishing an independent, national-level institution to promote and support SME development in India.

This study is based on a request made to German Technical Cooperation (GIZ) by the Ministry of Micro, Small and Medium Enterprises (MoMSME), Government of India. It is meant to provide the necessary input to the Expert Group constituted under the chairmanship of Member (Industry), Planning Commission and assist in the group’s decision-making process.

The study also assesses how other countries have addressed the problems faced by Indian SMEs, selects certain best practices for adoption and finally identifies which best practices could be adapted to the Indian context. The study is based principally on secondary research along with limited primary interaction with Indian institutional stakeholders and with international experts in certain countries.

Results of Domestic Assessment

Although the recommendations of the study do not distinguish between MSMEs in the organised and those in the unorganised sector, the fact remains that the latter is too big a segment to ignore. In view of the sheer number of enterprises falling in the unorganised sector, it is essential to devise appropriate policies and delivery mechanisms directed towards reducing the disadvantages of this sector. However, it was beyond the scope of this study to develop such policies and interventions especially for this sector. The study notes that the National Commission for Enterprises in the unorganised sector (NCEUS) has examined various aspects of the informal sector and has submitted its findings and recommendations. In its final report it recommends the creation of special purpose institutions to deal with the constraints faced by unorganised enterprises. It has also recommended the setting up of a National Fund for the unorganised sector to focus on the provision of finance to enterprises with an investment below INR 500,000. Further, it recommends the establishment of a National Council for Technological Upgradation of the unorganised sector to target technological deficiencies. These recommendations highlight the fact that the existing public support system is perhaps unable to provide nuanced and specific measures for the informal sector to the extent required.

The results of the domestic assessment fall into two categories:

- A Issues related to key MSME services of credit, marketing, infrastructure, skill development and technology.
- B Issues that are cross-cutting and affect the overall institutional framework for SME promotion and development.

Service-Specific Issues

These issues relate to SME (The terms MSME and SME have been used interchangeably. The former is used by the Government of India whereas the latter is used as a general term internationally) support services in the areas of credit, marketing, infrastructure, skill development and technology. The analysis identifies issues in the provision of a service by asking three questions:

- 1 Is the planning right?
- 2 Is the execution or delivery of the service right?
- 3 Is the approach to measuring results right?

The following table summarises key findings with respect to each of these service areas:

Table 1 Service specific issues in India

| PLANNING | EXECUTION | RESULTS |
|--|--|---|
| Credit | | |
| <ul style="list-style-type: none">• Policies do not address institutional disincentives to lend to MSMEs• Innovations in financial products for MSME and delivery systems introduced by Small Industries Development Bank of India (SIDBI) in an effort to induce change in the banking system have met with mixed results• Programmes have not addressed the need for financial transparency in MSMEs in order to obtain banking services | <ul style="list-style-type: none">• Banks find it difficult to assign market prices to MSME credit services• Neither banks nor Micro-Finance Institutions (MFIs) find it feasible to cater to the “missing middle” segment of SME loans of INR 50,000–10,00,000• Specialist institutions, such as those in venture capital, have not been able to raise significant funds; MSME response is low• Low levels of credit information; banks unwilling to accept 3rd party credit ratings for MSMEs | <ul style="list-style-type: none">• Focus on total credit disbursed and not on assessing and analysing specific financial products, services and delivery models• No integrated data analytics for monitoring and evaluation |
| Marketing | | |
| <ul style="list-style-type: none">• No binding procurement policies for government agencies• No change in focus towards MSMEs in service sector• Lack of market intelligence• Insufficient budgets for marketing services | <ul style="list-style-type: none">• Poor coordination across multiple agencies implementing similar programmes• Lack of centralised programme management; schemes of various agencies run in silos• Serious organisational weaknesses in Khadi and Village Industries Corporation (KVIC), the largest consumer of MoMSME budgets• Bureaucratic business procedures | <ul style="list-style-type: none">• Focus on inputs and procedures, not on outputs and impacts• No systematic mechanism for outcome evaluation, only accounting audits |
| Skill Development and Technology | | |
| <ul style="list-style-type: none">• Lack of stringent targeting of support programmes• Lack of institutional specialisation• Scope and budget of support measures do not correspond with demand | <ul style="list-style-type: none">• Insufficient coordination of the numerous institutions and sub-units• Lack of desired quality in service offerings• Institutions face bottlenecks such as inadequate quantity and quality of core staff, centralisation of decision-making power, lack of motivation to compete in the open market | <ul style="list-style-type: none">• Performance of the institutions measured by cost-efficiency rather than by the impact that the services and programmes have on MSMEs |

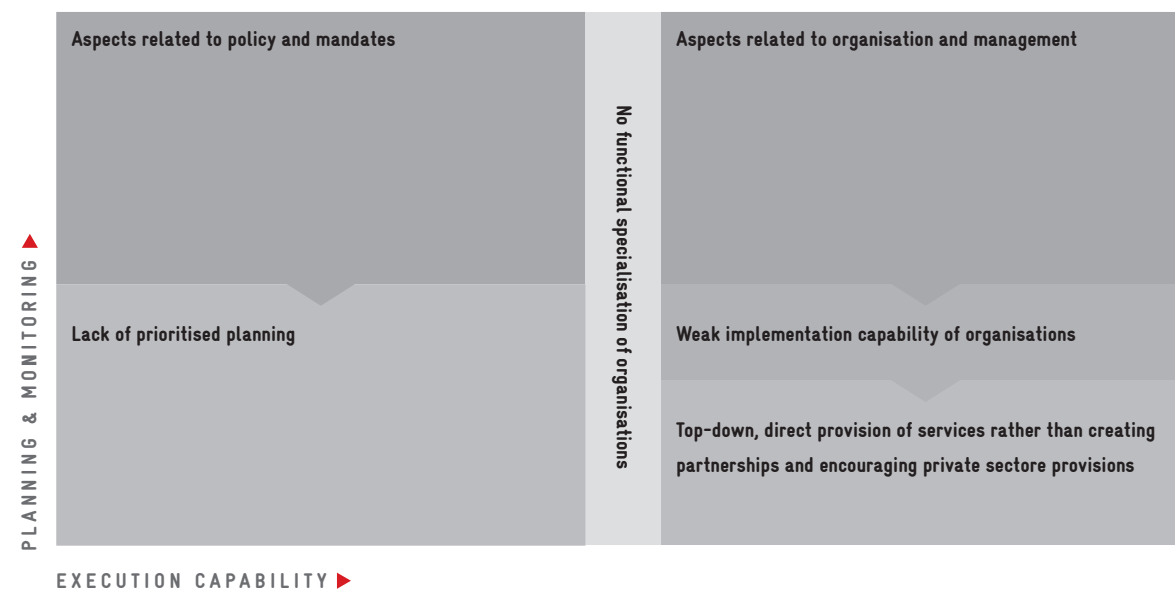
▲ Cross-cutting Issues

The following issues affect the overall MSME environment and extend to all service areas.

- ▲ Lack of prioritised planning and functional specialisation: The mandates of each of the three key organisations (NSIC, DC-MSME, SIDBI) are all encompassing. MoMSME's annual plans contain a wide range of support policies and programmes with similar components implemented by different agencies. There is no planning instrument which prioritises support services based on specific criteria such as subsector, trade, level of technology, or position in the marketing value chain. There are several ministries running their own MSME programmes without coordination with MoMSME. In fact, there exists no institutional mechanism which can coherently coordinate the programmes of MoMSME, other ministries and their associated agencies.
- ▲ Relatively small scale of outreach and impact: Key national level MSME institutions have programme coverage that needs to reach a scale where it can make an impact on India's MSME population. In addition, over 90% of MSME continue to be unregistered according to the government's MSME Census, indicating weak incentives to register as a formal entity and be eligible for government support services. Agencies at lower levels, such as the District Industries Centres (DIC), State Financial Corporations (SFC) and State Industrial Development Corporations (SIDC), are handicapped by ageing infrastructure and rigid processes. Feedback from the ground level consistently point to a perception by MSME that government services remain difficult to access.
- ▲ Inflexible approach of direct provision of services by government: Although the policy discourse in India has moved away from direct government provision of services to alternative approaches such as Public-Private Partnerships (PPPs), this shift has not happened in actual programme implementation. The implementation of programmes (schemes) remains a vertical, rigid government-run process with limited autonomy given to the implementing units or to the recipients of such services. The decentralisation of services to business associations and private service providers has not taken place.

In brief, all cross-institutional aspects can be grouped into those related to policy and mandates and those related to organisation and management as shown below:

Figure 1 Key Issues in MSME Promotion in India



▲ International Assessment

As the basis for the selection of best practice examples that provide useful lessons for the Indian context, this study has conducted an analysis of the service delivery mechanisms to SMEs and institutions in eight countries (Malaysia, South Korea, Japan, Taiwan, China, South Africa, Brazil and the USA) and the European Union. The countries have been chosen along five parameters, namely their score in the Ease of Doing Business Index, per capita GDP, population size, geographical location and whether they have a federalist state structure. From this sample have been selected mechanisms and institutions that display high effectiveness in service delivery and the addressing of issues identified by the Task Force report and by this study's domestic assessment. Countries that provide best practices are Malaysia, South Korea, Japan, South Africa and the USA, plus those of the European Union.

▲ Recommendations and Options

This study comes up with two primary recommendations in response to the key research question in its terms of reference: is a new national-level apex institution for SME promotion necessary in India?

Going beyond this, it recommends certain actions which have a cross-cutting effect on the existing institutional framework. The study also identifies service-specific options for the Expert Group to consider. These options offer ways to improve existing SME services in credit, marketing and skill development and are derived from a review of international best practices in these areas. It concludes by identifying areas that require further study and planning to identify areas for concrete executive action.

▲ Primary Recommendations

- ▲ **It is not necessary to set up a new, national-level executive agency for SME promotion and development.**
To set up an apex national-level executive agency, such as the USA's Small Business Association (SBA), is not suggested as an option that would be able to respond per se to the challenges of MSME promotion. This study shows that, unlike India, countries with such apex executive agencies do not have a dedicated ministry for MSMEs. In India, MoMSME has the institutional arrangements to perform all the functions of a national-level executive agency, such as SBA or Malaysia's SME Corp. However, in order to perform these functions efficiently and effectively, reform processes have to be initiated within MoMSME and its institutional framework.
- ▲ **It is recommended that a high powered central level supervisory council be set up to synchronise various initiatives, minimise duplication and maximise impact.**

There are more than 13 central ministries responding to the developmental needs of MSMEs; there is, therefore, a requirement for developing a system for an overarching, coordinated and comprehensive MSME promotion framework. It is suggested that a high powered central level supervisory council be established to better coordinate the overall planning and delivery of the support services for SMEs. The council should ensure that overall strategic goals are not lost sight of by different agencies implementing their own programmes and reduce duplication and overlaps. It should also coordinate the roles of various ministries in the MSME sector, monitoring the effort by individual ministries and agencies towards MSME promotion and development. The council's secretariat, a role that can be played by an existing organisation such as the Office of the DC-MSME, could play the role of a think tank for MSME issues. Relevant international examples are Malaysia's National Small Business Development Council (NSDC) and the USA's Trade Promotion Coordinating Committee (TPCC).

NSDC, with representation from 11 ministries and other agencies, serves as the highest policy-making body in Malaysia setting the strategic direction for government policies on SME development so as to ensure the coordination and effectiveness of government programmes. It convenes bi-annually to deliberate on strategies and new policies to support SME development across all sectors, as well as to monitor and evaluate

the progress and effectiveness of SME policies and programmes in promoting the growth and development of SMEs. NSDC is chaired by the Prime Minister of Malaysia, who appoints members to the council; it comprises ministers and heads of public sector agencies involved in SME development.

TPCC is a US federal government interagency task force that provides a unifying framework to coordinate the export promotion and export financing activities of the US government and to develop a government-wide strategic plan for carrying out such programmes. It is made up of 19 agencies; the following seven agencies form its core: Department of Commerce (DOC), Export-Import Bank, Overseas Private Investment Corporation (OPIC), US Trade and Development Agency (USTDA), Small Business Administration (SBA), Department of State and Department of Agriculture (USDA). This committee is chaired by the Secretary of Commerce and the Under Secretary of Commerce for International Trade. The main function of TPCC is to coordinate the development of the trade promotion policies and programs of the United States Government and prevent unnecessary duplication in federal export promotion and export financing activities.

Cross-Cutting Recommendations

- Prioritise support services based on defined criteria such as sectors, export-oriented trades, or size (micro/small/medium). Without explicit prioritisation of services, institutions would find it difficult to achieve greater efficiencies in their programmes and services for MSMEs.
- Rationalise and reduce the large number of support schemes with small budget outlay to a few focused and prioritised schemes (selected by target group, subsector, theme or a mix of more than one of these criteria).
- Plan support services with market development aspects wherever applicable. This basically means that the long-term focus should be on ensuring the systematic and large-scale development of private sector supplier capacities on one hand and the demand for such services on the other.
- Outsource programme implementation through an open contracting process, giving a fair chance to private service providers, especially for those services that are customer-facing. Support institutions should play a facilitator’s role rather than trying to implement every possible SME service themselves.
- Focus on the capacity building of MSME associations for closer integration into the implementation of support services and for maximising outreach. For example, NSIC can replicate the “raw material distribution model” by building the capacity of associations. A franchisee model with these associations can help substantially in enhancing outreach and covering underserved areas.
- Monitor the impact of support services on the beneficiaries, going beyond just adding up the number of recipients. Funds for monitoring the impact of any support scheme should be planned as an integral component at the design stage.

Service-Specific Options for Expert Group Consideration

These are mainly process-level options that have been derived from best practices in the study’s country sample. For detailed information on these best practices, please use the references to the relevant portions of the report.

Table 2 Options to improve SME Services

| OPTIONS | INTERNATIONAL INSTITUTIONS | BEST PRACTICES |
|--|--|---|
| Credit | | |
| <ul style="list-style-type: none">• Adoption of alternate mode of credit delivery by banks• Develop capacity of MFIs to lend to micro enterprises in the “missing middle” segment• Focus on enhancing financial literacy amongst MSMEs• Improve information asymmetry through further strengthening of the Credit Information Bureau of India Ltd. database of SME credit history | • SME Corporation Malaysia | <ul style="list-style-type: none">• Runs 1-InnoCERT (1-Innovation Certification for Enterprise Rating and Transformation) innovation standard. Firms in high technology sector choosing to obtain this standard are put on fast-track access to finance and business advisory services.• Offers the Small Debt Resolution Scheme through a network of banks and Development Finance Institutions (DFIs), providing debt restructuring facilities to SMEs unable to service their existing debt obligations <p>Bound by client charters that specify service levels, e.g., at SME Corp, all applications for matching grants are processed within 30 working days upon submission of complete information</p> |
| | • South Africa Micro Finance Apex Fund | <ul style="list-style-type: none">• Has a clear target population for credit service segments leading to the inclusion of the “missing middle” segment• Relies on existing traditional financing intermediates in order to target the informal sector |
| | • Bank Negara Malaysia | <ul style="list-style-type: none">• Its Central Credit Reference Information System (CCRIS) containing credit histories of SMEs that is used by the SME Credit Bureau, a centralised provider of credit information and ratings on SMEs in Malaysia; the central bank (BNM) acts as single source for lenders to retrieve credit information and ratings on SMEs |

Table 2 Continued

| OPTIONS | INTERNATIONAL INSTITUTIONS | BEST PRACTICES |
|---|---|--|
| Marketing | | |
| <ul style="list-style-type: none">• Implement Public Procurement policy for MSME• Reduce entry barrier for MSME by breaking down public contracts into smaller lots• Provide specifications in the form of performance and functional requirements rather than detailed technical specifications• Educate MSME on understanding government procurement better• Offer single window access for all international trade related services through coordination and networking with public (e.g. Export Promotion Council) and private institutions | • US Small Business Administration | <ul style="list-style-type: none">• Has a Goaling Programme which sets procurement targets for federal executive agencies for SMEs (23% prime contracts for small businesses is the principal target)• Procurement targets set and monitored on an annual basis by using data from the Federal Procurement Data System (FPDS)• Publishes the Small Business Procurement Scorecard to assess achievement in prime contracting to small businesses by 24 federal executive agencies• All export services available on Export.gov; all import services and services for foreign investors in the US available on BuyUSA.gov• SBA and USCS have specialist offices and staff to help SMEs with export promotion and to assist foreign buyers to connect with US SMEs |
| | • European Union and its Enterprise Europe Network (EU) | <ul style="list-style-type: none">• Code of Conduct provides precise guidelines on how to help SMEs to access public procurements plus a number of best practices for each of the challenges that SMEs encounter• Enterprise Europe Network is an umbrella organisation for export promotion for all EU member states that acts as a central one-stop shop working in collaboration with 567 partner organisations to facilitate cooperation between SMEs, universities for R&D and product design• Provides a database of information related to accessing different overseas markets and publishes a guidebook specifically for SMEs that is available in 23 different languages |

Table 2 Continued

| OPTIONS | INTERNATIONAL INSTITUTIONS | BEST PRACTICES |
|---|---|---|
| Skill Development | | |
| <ul style="list-style-type: none">• Target skill development at lower levels of skill pyramid to meet the huge gap in demand and supply• Build the capacity of private sector intermediaries and actively involve them in delivery mechanism• Formulate systems and mechanisms for updated content formation, delivery and assessment | • Ministry of Economy, Trade and Industry (METI) of Japan | <ul style="list-style-type: none">• Mobilises skills of retired workers for SMEs: resulted in the Shingeneki challenge plan which in 2009 was Yen 1.97 billion• Supports human resource development by encouraging interaction between personnel in manufacturing sector SMEs and technical education and research institutions: resulted in programmes worth Yen 380 million in 2009• Portion of SME investment in personnel training and overall human resource development can be a tax write-off from corporate and income tax• Enhances industry-academia collaborations through networks of multiple research institutions and enterprises: resulted in initiatives such as the Programme for Industry-Academia Partnership for Human Resource Development with a 2009 budget of Yen 1.51 billion• Promotes regional employment through subsidies and other measures: resulted in initiatives such as the SME Start-up Subsidy for Regional Revitalisation which finances start-up and hiring costs for entrepreneurs willing to set up business in regions with low employment |
| | SMRJ, Japan | <ul style="list-style-type: none">• Conducts periodic monitoring of supply of SME training in comparison with actual SME requirement• Manages SME universities and Institute for Small Business Management and Technology for meeting the skill development need of SMEs |

Recommendations for further study

The study identified a number of areas that require further studies and planning in order to be actionable. These are:

- 1 A management study is recommended in order to restructure and improve the operations of the existing network of technology, testing and training centres, tool rooms and development institutes that are currently under the DC-MSME office. The study should assess what parts of this network can be merged or separated into different entities with possible changes in the ownership structure. It should also look at the feasibility of private sector collaborations for the operation and maintenance of these centres wherever possible.
- 2 A management study of NSIC is recommended to realign its portfolio of services and organisational mandate towards a marketing support organisation. The study should particularly look at:
 - a How NSIC services can be rationalised – which existing services to retain, which new services to bring in—to strengthen the role of a premier marketing support organisation for MSME
 - b How private sector specialist providers can be used to deliver certain services to SMEs and extend the organisational footprint of NSIC
- 3 A feasibility assessment is recommended for the network of District Industries Centres (DIC), which have lost much of their original relevance and have infrastructure and capacity problems. The assessment should evaluate:
 - a If the existing network should be liquidated, thus releasing resources for other productive activities
 - b If the private sector can be invited to operate and manage at least some of these centres on commercially feasible terms
 - c If the existing network can be reused in other ways
- 4 A task force or apex committee should be formed to develop a road map for the banking system to increase credit coverage of MSME using alternative products and delivery systems. It should provide regulatory incentives for greater usage of international best practices such as the use of branchless banking techniques and information technology to deliver increased credit to MSME. (Steps have already been taken by RBI in this regard by defining an increased role of business correspondents for instance.)

01 Background and Approach

Introduction

In January 2010, the Prime Minister’s Task Force on Micro, Small and Medium Enterprises (MSMEs¹) published a report which identified key issues affecting Indian MSMEs and included recommendations on the way forward. One of these recommendations was to consider the feasibility of establishing an independent, national-level institution to promote and support SME development in India. Accordingly, an Expert Group has been constituted under the chairmanship of Member (Industry), Planning Commission to make suitable recommendations on the structure and mandate of an independent body at the national level for the promotion and development of MSMEs.

This study is based on a request made to German Technical Cooperation (GIZ) by the Ministry of Micro, Small and Medium Enterprises, Government of India. The findings of this study are meant to provide necessary input to the Expert Group and assist in their decision-making process.

Approach

The study evaluates how other countries have addressed the problems that Indian SMEs face, selects certain best practices for adoption and finally recommends which best practices could be adapted to the Indian context. It does this by:

- Identifying issues within the Indian institutional system responsible for the current suboptimal responses to MSME needs
- Assessing how institutions in other countries address similar problems
- Selecting relevant international best practices to the Indian context
- Evaluating whether, in order to adopt such practices, changes within the existing institutional set-up would be sufficient or the creation of a new institution would be needed
- Recommending other institutional changes needed in order to adopt these best practices

The study takes a four-step approach in assessing international best practices in the delivery of services to SMEs by government organisations:

i) Assess institutional factors underlying the problems identified by the Task Force

The Task Force Report has already identified key problems in certain thematic areas. This study focuses only on credit, marketing, skill development and technology-related areas relevant to SMEs. Excluded from the scope of this study are labour, taxation, infrastructure, rehabilitation and exit policy. This is because these areas involve issues that can be best tackled by a range of government policies, agencies and actors beyond those relevant to only SMEs.

ii) Develop a representative sample of countries to study how they deliver services to SMEs

The table below lists eight countries and the European Union as a frame of reference from which to pick best practices in SME promotion and development. The goal was to pick a sample of countries representing a spectrum of economic development parameters and geographies for comparison.

¹ The terms MSME and SME (Small and Medium Enterprises) have been used interchangeably. The former is used by the Government of India whereas the latter is used as a general term internationally.

Table 3 Parameters for country selection

| | Ease of Doing Business Index** | GDP per capita (PPP)* | Federalism | Population | Geographical location |
|--------------|--------------------------------|-----------------------|------------|---------------|-----------------------|
| USA | 4 | High (USD 42,809) | Yes | 304,060,000 | North America |
| JAPAN | 15 | High (USD 25,498) | Similar | 127,704,000 | Asia |
| KOREA | 19 | High (USD 25,498) | Similar | 48,607,000 | Asia |
| MALAYSIA | 23 | Middle (USD 13,128) | Similar | 27,014,337 | Asia |
| SOUTH AFRICA | 34 | Middle (USD 9343) | Similar | 48,687,000 | Africa |
| TAIWAN | 46 | High (USD29,800) | Similar | 23,046,177 | Asia |
| CHINA | 89 | Low (USD 5514) | No | 1,324,655,000 | Asia |
| BRAZIL | 129 | Middle (USD 9517) | Yes | 191,971,506 | South America |
| EU | N/A | High (USD 29,729) | Similar | 492,387,344 | Europe |

* 2008 data | **2009 India is ranked 131 | Sources: World Bank, CIA World Factbook, Eurostat

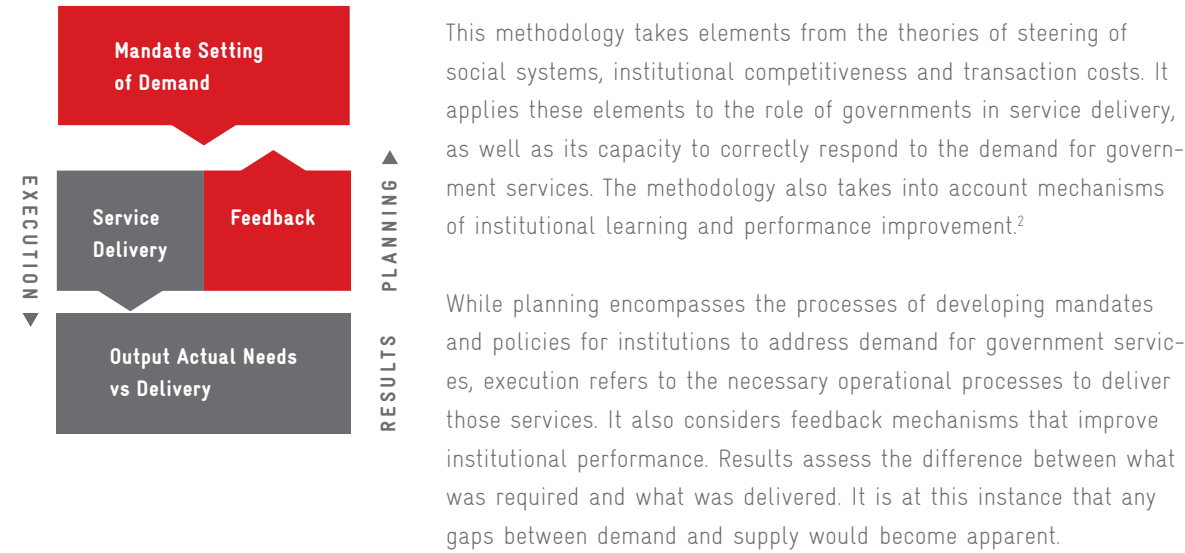
- Five parameters have been selected. For each parameter the chosen sample consists of countries that vary in position from the top of the scale to positions much lower down. However, all countries selected rank higher than India in terms of per capita GDP and the Ease of Doing Business Index. The five parameters are:
- 1 Per Capita Gross Domestic Product (measured at Purchasing Power Parity prices): A proxy for economic development, this yields the wealthiest (e.g. USA), middle-ranked (e.g. Brazil) and low-ranking (e.g. China) countries.
 - 2 Ease of Doing Business Index: A proxy for the institutional performance of SME regulatory agencies, this yields countries that range from the top 5 (USA) and top 20 (Japan, Korea) to the top 50 (Malaysia, South Africa, Taiwan) and top 100 (China and Brazil) scores of the International Finance Corporation–World Bank 2010 Doing Business Survey.
 - 3 Federalism: The goal was to select countries with institutional settings similar to those of India, characterised by state institutions divided along national/federal, state/province and local lines, where the state/province level can have specified legislative (law-making) powers.
 - 4 Similar Size of Population: A proxy for the governance costs of administering a large population base. Although China and India are today the most populous countries in the world, this parameter is relevant as it filters out countries with very good institutions of SME governance, such as Singapore, but whose small number of citizens makes a comparison with India difficult.
 - 5 Geographical Location: This parameter ensures that the sample of countries is truly global with representation from the major continental areas of the world (the Americas, Africa, Europe and Asia).
- iii) **Pick institutions from the international sample that are high performers in the identified problem areas**
- From the country sample, the study identifies institutions in Malaysia and South Africa for credit, the EU and the USA for marketing and Japan and South Korea for skill development and technology.

- iv) **Recommend measures to be taken by the government to improve service delivery to SMEs based on best practices from these international institutions**
- Recommendations are made in three categories—promotional framework, service specific and those related to cross-cutting measures affecting most of the institutions and services for SMEs. Areas for further study are also identified.

Methodology

Research and analysis is primarily desk and web-based along with limited primary interaction with institutional stakeholders in India and with international experts in certain countries (wherever possible). Institutional mechanisms have been assessed and analysed with reference to their efficiency and effectiveness on the levels of planning, execution and results.

Figure 2 Methodological Overview



² See, for example, the works of Williamson (1995, 1999), OECD (2004), Obermann (2007), Herder–Dornreich (1986), Clemson, B. (1984)

The following criteria have been used, wherever appropriate, for assessing these three levels of institutional mechanisms and their suitability in providing a best practice example for India.

Table 4 Criteria for assessing institutional mechanisms

| | |
|-----------|--|
| Planning | <ul style="list-style-type: none">• Degree of target group orientation (definition of target groups)• Priority of the service field in MSME promotional policy and implementation• Coherence (degree of consistency of scheme requirements and allocation policies, synergy, complementarity of services) |
| Execution | <ul style="list-style-type: none">• Availability of information on promotion schemes and how up-to-date the information is• Ease and promptitude of application and registration• Accessibility to services• Degree of usage of modern electronic tools/ICT• Existence and frequency of internal and external evaluation routines for performance improvement/ monitoring of negative results• Level of transparency of internal procedures• Intensity and degree of private sector involvement and regularity of exchange and dialogue between service providers• Coordinateness of support measures |
| Result | <ul style="list-style-type: none">• Level of accomplishment of planned results and impacts• Usefulness of products in terms of content• Active search for durability of results• Quality of results• Outreach of service (quantitative and geographic) |

Limitations

The study has defined certain boundaries. First, while it identifies central, state and local agencies, the focus is restricted to the core federal-level MSME-specific institutions, i.e., the office of the Development Commissioner – MSME (DC-MSME); the Khadi and Village Industries Commission (KVIC) and the National Small Insurance Corporation (NSIC) under the aegis of Ministry of Micro, Small and Medium Enterprises (MoMSME); and SIDBI, the principal financial institution for financing and related promotional and development work for MSMEs. Second, it focuses on inter-institutional aspects of gaps, overlaps and duplication arising from multiple agencies working with the same target segments of MSMEs, although the strength and possible major reasons of under performance of these key institutions has also been looked into.

There are several purely private sector organisations that support/promote MSMEs in the widest sense, including business support provider services, financial and micro-finance institutions and business associations (e.g. chambers of commerce). However these private sector entities have not been included in the analysis except in so far as they engage with state institutional mechanisms.

Structure of the Report

The report is structured in the following manner: Chapter 2 describes MSME characteristics, key challenges and the legal and promotional framework, and Chapter 3 assesses institutional difficulties in delivering services to SMEs in India based on the Task Force’s identification of problems in various thematic areas. Chapter 4 identifies those institutions in other countries that reflect best practices in delivering SME-related services. Chapter 5 concludes with recommendations and open issues needing further research. The profiles of the institutions selected (domestic and international) and the countries forming our sample are provided in annexes.

02 MSMEs in India

Introduction

The importance of micro, small and medium enterprises in the India’s socioeconomic development is a well-known fact. Despite facing numerous challenges, MSMEs contribute significantly to GDP, the industrial base, employment and exports.

In terms of value, it is estimated that the MSME sector accounts for about 45% of the manufacturing output and approximately 40% of the total exports of the country.³ The sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It has the second largest share of employment after agriculture and spans a wide range of industries, including small-scale, khadi, village and coir industries, handlooms, handicrafts, sericulture, wool, power looms, food processing, and other agro and rural industry segments. Its basic characteristics and subsector distribution are shown in the tables below:

Table 5 Characteristics & distribution of industrial segments⁴

| | Registered | Unregistered | Women- owned | Proprietorship / Partnership | Geographical Distribution |
|-----------|------------|--------------|--------------|------------------------------|---------------------------|
| % of SMEs | 6 | 94 | 7 | 94 | 55% in 7 states |

| SECTORS | PERCENTAGE |
|------------------------------|------------|
| Food Products | 18.97 |
| Textiles & Clothing | 14.05 |
| Basic Metal | 8.81 |
| Chemical & Chemical Products | 7.55 |
| Metal Products | 7.52 |
| Machinery & Equipment | 6.35 |
| Transport Equipments | 4.5 |
| Rubber & Plastics Products | 3.9 |
| Furniture | 2.62 |
| Paper & Paper Products | 2.03 |
| Leather & Leather Products | 1.98 |

It is extremely difficult to construct a coherent visualisation of India’s MSME universe. While the MSME Act of 2006 groups enterprises into three main categories – micro, small and medium – based on the investment in plant and machinery, there are various other important factors that characterise MSMEs in India and which may be at variance with many other countries. An attempt is made here to look into the different characteristics of the MSME segment at which the promotional measures are targeted. The entire spectrum of enterprises⁵ in India can first be categorised into the organised sector (also known as factory sector) and the unorganised sector (non-factory sector).

³ MoMSME (2009), 4th all India census of MSME, Government of India
⁴ Prime Minister’s Task Force Report
⁵ An enterprise is an undertaking which is engaged in the production and/or distribution of some goods or service meant for the purpose of sale, whether fully or partly. (National Sample Survey Organisation)

Organized Sector

The organised sector comprises enterprises on whose activities information is regularly collected through the Annual Survey of Industries (ASI) under the Factories Act, 1948. The act becomes applicable if a manufacturing enterprise (which includes manufacturing, processing, repair and maintenance service units) employs ten or more people with power or 20 or more people without power. Even within the organised sector there exist both registered and unregistered enterprises that they are highly heterogeneous in terms of size, variety of products, services, level of technology and market linkages. Different categories of enterprises can be broadly grouped on the basis of whether or not they are employment intensive, high growth, high technology, subcontracting and have international market linkages. The challenges faced by each are different. For example, for high-growth enterprises access to equity capital is an area of major concern in the overall challenge of access to credit.

Unorganized Sector

When assessing the situation of MSMEs in India, a major issue to be taken into consideration is the state of the unorganised sector. Generally speaking, this sector consists of enterprises that have little or no executive structure. Internationally, they are referred to as the “informal sector”. According to the definition of the National Commission for Enterprises in the Unorganised Sector (NCEUS), the unorganised sector comprises “all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a propriety or partnership basis and with less than ten total workers⁶”. This definition leads to a large overlap with micro enterprises (98%)⁷, which are defined as having an investment of less than INR 2.5 million in plant and machinery, particularly in the manufacturing sector. Therefore, many institutions and studies in this area use the term “micro enterprises” when referring to the unorganised sector. The terms “unorganised enterprises” and “unregistered enterprises” are usually used interchangeably. However, the scope of the term “unorganised” is wider and includes unregistered, unregulated and informal enterprises and establishments. Overall the sector is very large. Figures from the 2005 Economic Census show that the number of enterprises that fall under the NCEUS definition is 41.83 million. In relative terms, this accounts for 89.05% of all enterprises and 65.26% of employment. In 2004–05, non-farm micro enterprises contributed 32.2% of India’s GDP.⁸

Within the unorganised sector, two types of entities can be distinguished. On one hand are the self-employed, so-called own account enterprises (OAEs), which dominate the sector. These units make use only of family labour, and most are located on household premises. On the other hand are entities that employ up to nine workers. The former prevail in rural areas, while the latter are mainly found in urban areas.

⁶ NCEUS Report 2009, p.3.
⁷ NCEUS Report 2009, p. 282.
⁸ Ministry of Statistics and Programme Implementation (2005), Fifth Economic Census 2005, Chapter II, Government of India

Challenges for Indian MSMEs

Indian MSMEs face several challenges, some of which are generic problems that SMEs everywhere in the world have to struggle with and some which are specific to India. The common challenges faced by MSMEs are listed below:

Table 6 Challenges in SME Services in India identified by the PM’s Task Force

| | |
|--------------------------------|--|
| Access to Finance | Lack of availability of adequate and timely credit , High Cost of Credit, Collateral requirements, Limited access to equity, venture & start up finance |
| Marketing | Problem in supply to govt department, procurement of raw material at competitive cost, Problem of storage, designing, packaging and product display, Lack of access to global market |
| Technology | Low technology and lack of access to modern technology |
| Skill Development | Lack of availability of skilled manpower |
| Infrastructure | Inadequate infrastructure facilities, including power, water, roads, port etc. |
| Rehabilitation and Exit Policy | Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily |
| Labour | Multiplicity of labour laws and complicated procedures associated with compliance of such laws |
| Taxation | Issues relating to taxation, both direct and indirect, and procedures thereof |

While the above challenges affect all categories of MSMEs, the importance of these issues varies depending on the size, subsector, position in the value chain, characteristics and geographical location of the enterprises. For example, while access to finance is a key constraint for all MSMEs, the type of credit needed differs according to the size of the enterprises: micro enterprises with a credit requirement in the range of INR 50,000–500,000 are almost completely out of the reach of institutional credit; for small and medium enterprises, access to equity capital is difficult and the availability of finance to start a new business is almost nonexistent.

The unorganised sector differs in several aspects from the group of organised small and medium enterprises. Accordingly, the constraints of this sector and its needs and requirements are different from those of the MSMEs in the organised sector.

Generally, studies concerning the state of the unorganised sector differentiate between livelihood constraints (particularly working conditions, income and social security) and growth constraints. Growth constraints as such are the same that are found for the overall MSME sector. These constraints can also be grouped in the areas of access to credit, marketing and technology and skill development. However, as far as their importance to enterprises is concerned, there are differences to be noted. For example, most of the unorganised sector’s manufacturing enterprises operate from non-approved industrial areas, making them ineligible for many institutional support measures.

NCEUS has examined various aspects of the informal sector⁹ and has submitted its findings and recommendations. In its final report it recommends the creation of special purpose institutions to deal with the constraints faced by unorganised enterprises. It has also recommended the setting up of a National Fund for the Unorganised Sector to focus on the provision of finance to enterprises with an investment below INR 500,000. Further, it recommends the establishment of a National Council for Technological Upgradation of the Unorganised Sector to target technological deficiencies.¹⁰ These recommendations highlight the fact that the existing public support system is perhaps unable to provide nuanced and specific measures for the informal sector to the extent required.

For the purposes of this study, the institutional framework has been analysed without distinguishing between the organised and unorganised sectors. However, in view of the sheer number of enterprises falling in the unorganised sector, it is essential to devise appropriate policies and delivery mechanisms directed towards reducing the disadvantages of this sector.

The Micro, Small and Medium Enterprises Act, 2006

The act provides the overall framework for facilitating the promotion and development of MSMEs and enhancing their competitiveness and for matters connected therewith or incidental thereto. The MSME Act, passed in 2006 following a broad-based process of public-private dialogue, marked a significant breakthrough in the general framework conditions. It addressed a whole series of long-articulated demands that included the need to define the MSME sector. Equally significantly, it established the MSME Board, whose main function is to oversee and regulate the development of MSMEs in India. The board’s duties include monitoring cluster development, training enterprise, development infrastructure and promoting financial access to the MSME sector in the country. The MSME Act defines enterprises as follows:

Table 7 Definition of MSME in India

| CATEGORY | INVESTMENT (PLANT & MACHINERY) [INR] | SERVICE [INR] |
|--------------------|--------------------------------------|-----------------|
| Micro Enterprises | Less than 2.5 m | Less than 1.0 m |
| Small Enterprises | Less than 50 m | Less than 20 m |
| Medium Enterprises | Less than 100 m | Less than 50 m |

Source: MSME Act 2006

The act simplifies the registration process for new MSMEs. It also sets the agenda for specific policies that it will create and implement; these include the procurement preference policy, which will guide government bodies on what proportion of their supplies should be purchased from MSMEs, and the closure of business or exit policy, which will regulate the liquidation of sick units. Another policy measure under the act is the introduction of penal provisions for delayed payments to micro and small enterprises.

Without a doubt, the changes brought about by the MSME Act have led to improvements in the MSME business environment. However, India still has far to go before it can be said to enjoy a wholly favourable or conducive investment and business climate.

⁹ See various reports published by the NCEUS in 2009
¹⁰ NCEUS (2009), A Report on Technology Upgrdation for Enterprises in the Unorganised Sector, pp. 281, 327, Government of India

▲ Promotional Policy Framework

The approach of the MSME Promotion Policy in the Indian government’s Eleventh Five Year Plan is summarised as below:

- ▲ Aim at creating an environment in which entrepreneurship can flourish at all levels, not just at the top
- ▲ Enhance the coverage of support schemes from several ministries/departments/institutions
- ▲ Change the approach from an emphasis on loosely targeted subsidies to creating an enabling environment
- ▲ Incentivise innovation and creativity and remove all entry barriers and mitigate business risks for start-ups
- ▲ Have two kinds of schemes for the unorganised sector: one focusing on the lives of the small-firm workers, artisans, and crafts people, and the other on their livelihoods
- ▲ Incentivise the graduation of micro and small enterprises to medium and larger units through well-calibrated fiscal and non-fiscal measures
- ▲ Ensure the availability of timely and adequate credit (both term loan and working capital) to small and medium enterprises from commercial banks and other financial institutions

03 Domestic Assessment

This section assesses the institutional reasons behind the problems in delivery of services to SMEs in India as identified by the Task Force. It provides an overview of Indian institutions whose mandate is to provide services to SMEs and explains why they have not been able to deliver adequate services in critical areas such as credit, Marketing, Technology & Skill Development.

3.1 Institutional Overview

In India, both the central government and the state governments are involved with MSME promotion and development. The primary responsibility lies with the state governments but the central government supplements their efforts through a range of initiatives. There exist several ministries, institutions and departments, both at state and central level, which are involved in the promotion and development of this sector. Some of these have a SME-specific focus, while others are of a cross-cutting nature (see Figure 1 below; for profiles of key institutions see Annexe 1).

Figure 3 Indian Institutional Framework for SMEs

| | SECTOR SPECIFIC MINISTRIES | MSME MINISTRY | CROSS-SECTOR MINISTRIES |
|---------------|--|-----------------------------|--|
| Central Level | MoT, MoFPI, MCF | MoMSME | MoCI, MoF, MoLE, MoST, MoP |
| State Level | State Industrial Development Corporation | State Financial Corporation | Technical Consultancy Organisations (APITCO etc) |
| | District Industries Centres | | |

KEY: Ministry of Micro Small and Medium Enterprises (MoMSME), Ministry of Commerce and Industry (MoCI), Ministry of Finance (MoF), Ministry of Labour and Employment (MoLE), Ministry of Science and Technology (MoST), Ministry of Power (MoP), Ministry of Textiles (MoT), Ministry of Food Processing Industries (MoFPI), Ministry of Chemicals and Fertilisers (MCF), Andhra Pradesh Industrial and Technical Consultancy Organisation (APITCO)

Several central ministries¹¹ and departments have schemes to support MSMEs as well the institutional arrangements required to implement these schemes. These ministries and departments respond to the needs of MSMEs through approaches that broadly fall into the following categories:

- ▲ Policy measures
- ▲ Specialised institutions
- ▲ Support measures
- ▲ Support to state governments

Amongst the sector-specific ministries, the Ministry of Textiles and the Ministry of Food Processing Industries are significant as far as MSMEs are concerned. This is because these two sectors taken together constitute a third of the country's SME enterprise population¹² and are labour intensive industries generating significant employment.

¹¹ Prominent are the ministries of MSME, Textiles, Food Processing Industries, Commerce, Finance, Labour and Science & Technology
¹² Prime Minister's Task Force Report

Each ministry and department plans its focus area of activity independently and implements it through its own institutional mechanism. As per a study¹³ conducted by the Federation of Indian Micro and Small & Medium Enterprises (FISME), there exist 45 schemes/programmes run by 13 central ministries and departments aimed at groups of enterprises. These are in addition to schemes/programmes directed at individual enterprises. Categorisation of these schemes by the broad focus area highlights the following facts:

- Though each ministry/department has its own priority and focus area for which specific schemes are propagated, there are many cross-cutting issues that more than one ministry is attempting to address.
- At any given time, there is more than one scheme trying to address similar concerns with different characteristics and incentive mechanisms, e.g., provision of infrastructure (parks, Common Facilities Centres), soft intervention (capacity building, training and other support services), assistance in facilitating market access, technology upgradation, research and development, credit, etc.

Evolution of MSME specific institutional framework:

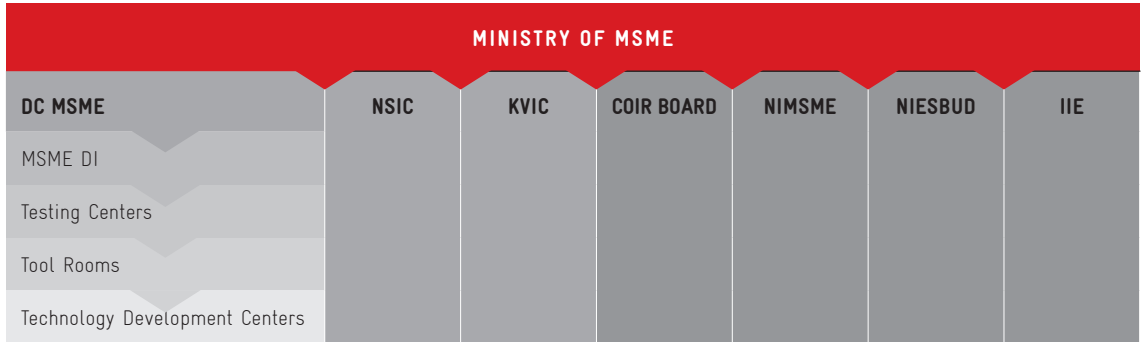
The roots for present institutional framework for MSME development can be linked back to the recommendations of the international perspective planning team of 1953-54, which had then recommended the creation of small sector department under the then Ministry of Industry, a marketing corporation and centres equipped with appropriate machineries and other facilities for training of small entrepreneurs¹⁴. In pursuance of these recommendations, Small Industries Development Organisation (now named as office of DC MSME), National Small Industries Corporations (NSIC) and small industry extension training institutes were set up for providing support to the sector. Over the last 5 decades, institutional framework has undergone many changes and the whole network has been expanded. Each state had also set up institutions to assists the sector. The whole network was enlarged with the establishment of District Industries Centres in 1978 and thereafter but followed basically the same approach of earlier decades.

At the central level, the Ministry of Micro, Small and Medium Enterprises (MoMSME) is responsible for all policy matters relating to MSMEs and to provide focused attention to the promotion and development of the micro, small and medium enterprises sector. The main role of the Ministry of Micro, Small and Medium Enterprises (MoMSME) and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario. However, in reality the central government has not only assumed key responsibility in policy formulation but also in the provision of services and strategic thrust to MSME development. To achieve its objective it runs various schemes/programmes attempting to address all the key challenges related with credit, marketing, infrastructure, skill development & technology, which are implemented through its organizational network.

13 FISME (2010), Compendium of MSME Support Schemes

14 Friedrich Naumann Stiftung and National Council of Applied Economic Research (1993), Structure and Promotion of small-scale industries in India

Figure 4 Organisational structure of MoMSME



Taking into account various factors like the budget allocation, service offering, branch network and direct interface with enterprises, the key institutions for SMEs reporting to MoMSME are the Office of the Development Commissioner (DC-MSME), the National Small Industries Corporation (NSIC) and the Khadi and Village Industries Corporation (KVIC). The Small Industries Development Bank of India (SIDBI) is the principal financial institution that caters to the financing needs of SMEs. It reports to the Ministry of Finance. At the state level, the three major categories of institutions are the State Industrial Development Corporations (SIDC), the State Financial Corporations (SFC) and a number of Technical Consultancy Organisations such as the Andhra Pradesh Industrial and Technical Consultancy Organisation (APITCO). Finally, at the district level, there are District Industries Centres (DICs), originally conceived as one-stop service centres for SMEs. DICs are uniquely positioned due to the very fact that they are at district level and therefore geographically closest to the industry; they are often the first point of contact for budding entrepreneurs.

3.2 SME Services-Related Aspects

This section assesses problems with Indian institutional delivery of key services to SMEs in the areas of credit, marketing, skill development and technology. The analysis picks up from the point where the Prime Minister's Task Force report identifies problems in each of these areas and assesses why these problems arise. Where analysis of a particular aspect has already been done by the Task Force or by some other published study, it has been taken into account.

3.2.1 CREDIT
Table 8 Key issues “Access to Credit” India

| INDIA |
|--|
| Access to Credit |
| Planning |
| <ul style="list-style-type: none">• Policies do not address institutional disincentives to lend to MSMEs |
| <ul style="list-style-type: none">• Innovations in financial products for MSME and delivery systems introduced by Small Industries Development Bank of India (SIDBI) in an effort to induce change in the banking system have met with mixed results |
| <ul style="list-style-type: none">• Programmes have not addressed the need for financial transparency in MSMEs in order to obtain banking services |
| Execution |
| <ul style="list-style-type: none">• Banks find it difficult to set market pricing of credit services |
| <ul style="list-style-type: none">• Unable to cater to the need of the “missing middle” segment |
| <ul style="list-style-type: none">• Specialist institutions, such as those in venture capital, have not been able to raise significant funds; MSME response is low |
| <ul style="list-style-type: none">• Low levels of credit information; banks unwilling to accept 3rd party credit ratings for MSMEs |
| Results |
| <ul style="list-style-type: none">• Focus on total credit disbursed and not on assessing and analysing specific financial products, services and delivery models |
| <ul style="list-style-type: none">• No integrated data analytics for monitoring and evaluation |

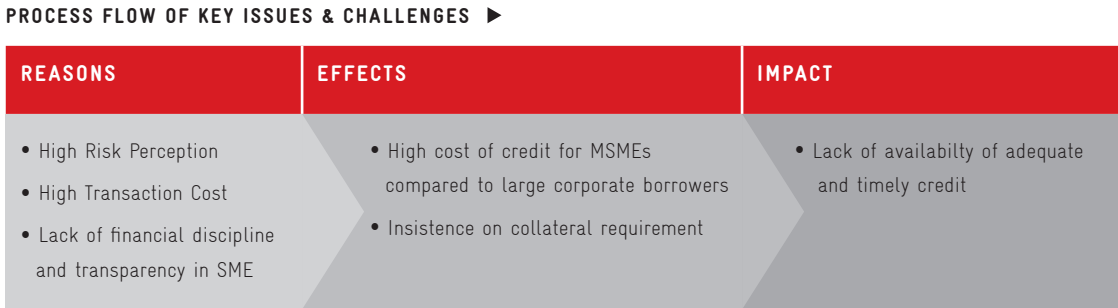
Credit is critical for SMEs and the government has allocated a major share of its resources and organisational capacity to making credit accessible to them. However, the flow of credit to SMEs has actually decreased, in relative terms, in the period 2000–09. From March 2000 to March 2009, the SME share of Net Bank Credit (NBC) declined from 12.5% to 10.9%. Similarly, there has been a decline in the share of micro sector lending as a percentage of NBC from 7.8% in March 2000 to 4.9% in March 2009¹⁵. The Task Force report has identified four main problems in delivering credit to SMEs. These are:

- ▲ Lack of availability of adequate and timely credit
- ▲ High cost of credit
- ▲ Collateral requirements
- ▲ Limited access to equity capital

The issues highlighted by the Task Force are part of the many challenges identified in various research projects and studies on the current status of credit to MSMEs. However, all these issues are part of an impact chain, although at different levels, which results in the end in the lack of availability of adequate and timely credit (see figure below).

¹⁵ Prime Minister's Task Force Report

Figure 5 Key challenges in credit provision for SMEs



The reasons¹⁶ for the gap in MSME lending are diverse in nature but the following issues can be identified as the core:

- ▲ High risk perception
- ▲ High transaction cost
- ▲ Lack of financial discipline and transparency

Of these, two (high risk perception and high transaction cost) emerge from supply side constraints and one pertains to demand side. This analysis examines the credit issue by identifying specific problems in the planning, execution and results evaluation of credit systems for SMEs in India.

▲ **PLANNING**

Where supply is concerned, a number of policy measures (ranging from setting priority sector lending targets for banks to defining norms for collateral free lending) have not worked in practice as they do not take into account the capacities and delivery mechanisms of the institutions implementing these policies. These policy measures also do not attempt to address the key issues of high risk perception, high transaction cost, characteristics of the target group and the market principle of lending and borrowing. Banks therefore find more economic sense in not lending rather than bearing the high risk of having such loans on their portfolios.

Small Industries Development Bank of India (SIDBI), the principal financial institution for the promotion, financing and development of industry in the small-scale sector, has been building an enabling environment for the availability of adequate and timely credit to MSMEs. While SIDBI does not have the organisational size and branch network of India’s other public banks, it has played the role of an innovation leader in this sector by testing and developing new products and techniques of credit delivery in a segment which is under-served and considered high risk by the banking sector. The goal is to set off demonstration effects and induce other banks to adopt these innovations. This role of inducing banks to adopt innovations in MSME financing has had mixed results. While some initiatives and innovations have been taken up by banks, others are yet to achieve the kind of scale that is required to bring systemic changes in MSME credit.

As far as demand is concerned, Indian SMEs have long received special concessions from the government based on their reported financial size. It has become standard practice for many SMEs to under-report their true financial value in order to remain eligible for these concessions and benefits. Their track record in transparent accounting has become a matter of concern for banks. Existing policies and programmes have

¹⁶ Reserve Bank of India (2005), Report of the Internal Group to Review Guideline on Credit Flow to SME Sector, Government of India and MoMSME (2009), 4th all India census of MSME, Government of India

not addressed this issue and, consequently, banks are likely to continue treating the financing of SMEs as unviable unless their concerns are met.

EXECUTION

Even if banks were willing to lend, direct or indirect regulation means they cannot price their services adequately to cover their transaction costs in processing a loan for an SME. High transaction costs would not be an issue in credit delivery if the banks were allowed to determine the price of credit as per their transaction costs and profit margin.

The banks’ perception of high risk also stems from the fact¹⁷ that most of the micro and many of the small enterprises are largely unorganised ventures requiring different lending and risk management techniques, processes and skills. Banks and other financial institutions frequently do not have the necessary capabilities and skill sets. This gap in capabilities along with regulation, high transaction costs and credit risk in dealing with MSMEs has led to the formation of a “missing middle” segment of loans between INR 50,000 and 10,00,000 for micro enterprises. This gap cannot be met by MFIs who usually operate in loan sizes of up to INR 50,000, while banks find it difficult to cater to loans below INR 500,000. (SIDBI has recently taken lead in this direction through the Asian Development Bank’s line of credit to develop ways and means of addressing this segment.)

The dominant channel of credit to SMEs remains the branch network of scheduled commercial banks. SIDBI as an apex MSME financing institution addresses the credit needs of a segment which is under-served and considered high risk by the banks. It also provides capacity building support to banks and financial institutions to better serve the MSME segment.¹⁸ SIDBI’s approach is to play the role of an innovation and thought leader – bearing the risk of innovative credit delivery systems so that a demonstration effect is initiated and other banks adopt such practices. Financing innovations launched by SIDBI have perhaps been ahead of their time when the MSME market was not mature to adopt such services. Innovative measures also take time to achieve scale. For instance, the Credit Guarantee Trust of Micro and Small Enterprises (CGTMSE) had limited initial coverage but has now picked up momentum and shown high increases in coverage.

Another problem with delivering credit to SMEs is the lack of borrower information available to the lender. Attempts to reduce this asymmetry of information between lender and borrower have not succeeded as banks have their own risk and credit rating systems and are unwilling to accept third-party credit rating systems such as those promoted by Performance and Credit Rating Scheme of the Ministry of Micro Small and Medium Enterprises. Without acceptance by banks, SMEs find no value in obtaining such ratings as is evident from the fact that in 2009-10, only 7,505 SMEs in the country have chosen to obtain a credit score from this scheme.¹⁹

Finally, business processes for delivering credit through government institutions often require multiple approvals at various levels and are perceived by SMEs as time-consuming. SMEs can get access to credit much faster from non-institutional sources even though the price of such credit may be higher. [This study does not assess the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up in 2000 as the Reserve Bank of India had set up a working group to review the performance of credit guarantee schemes and published its report in March 2010.]

17 ibid

18 SIDBI (2010), SIDBI Report on MSME, Government of India

19 NSIC data from website

RESULTS

Only 5% of the estimated 26 million SMEs in India receive credit from an institutional source²⁰. Only 12,051 units have obtained credit ratings from MoMSME programmes within the last two years²¹.

Current mechanisms appear to focus mainly on the quantum of credit disbursed by the various banking channels and state-level financial institutions; there has not been much focus on analysing the design and take-up of various financial products and services by SMEs or on studying the incentives faced by lenders and borrowers in choosing certain modes of credit.

3.2.2 MARKETING

Table 9 Key issues “Marketing” India

| INDIA |
|--|
| Marketing |
| Planning |
| • No binding procurement policies for government agencies |
| • No change in focus towards SMEs in service sector |
| • Lack of market intelligence |
| • Insufficient budgets for marketing services |
| Execution |
| • Poor coordination across multiple agencies implementing similar programmes |
| • Lack of centralised programme management; schemes of various agencies run in silos |
| • Serious organisational weaknesses in KVIC, the largest consumer of MoMSME budgets |
| • Bureaucratic business procedures |
| Results |
| • Focus on inputs and procedures, not on outputs and impacts |
| • No systematic mechanism for outcome evaluation, only accounting audits |

Marketing has always been a major problem for the MSME sector, although varying in intensity from industry to industry and enterprise to enterprise. Marketing problems are an important reason for the closure of enterprises in India. According to data from the Third SSI Census,²² 36% of the enterprises reported marketing problems as the reason for their sickness, while 66% percent cited lack of demand as the reason for their sickness. On the whole, the challenges facing MSMEs in the area of marketing are particularly pronounced and varied. Because of their size and isolation, individual MSMEs are constrained from achieving economies of scale. They are often unable to identify potential markets and are generally unable to take advantage of market opportunities that require large volumes, consistent quality and homogenous standards

20 MoMSME (2009), 4th all India census of MSME, Government of India

21 Data from NSIC website (www.nsic.co.in)

22 Percentages do not add up to 100%

and regular supply. Small size is also a constraint in accessing business services such as training, market intelligence and logistics. These constraints not only make it difficult for MSMEs to reach global markets but also limit their performance in the increasingly open and competitive domestic markets.

Alongside the lack of access to adequate finance, the Prime Minister's Task force has identified insufficient marketing skills and capacities as the second major challenge Indian SMEs face.²³ The Task Force report has identified four main problems in delivering marketing services to SMEs. These are:

- ▲ Problems with supply to government departments and agencies
- ▲ Lack of access to global markets
- ▲ Raw material procurement at right costs
- ▲ Problem of storage, display and design/packaging of products

The Prime Minister's Task Force report and other studies have found a number of reasons why SMEs are at a disadvantage in terms of marketing support. The following table summarises these factors for each of the above key issues.

Table 10 Challenges for SMEs in India for marketing

| INDIA |
|---|
| Marketing |
| Government Procurement |
| <ul style="list-style-type: none">• Lack of awareness of ongoing procedures by SMEs as well as unrealistic eligibility criteria applied by the tendering authorities• Complicated bidding procedures, which often exclude small and micro units from the tender• Absence of a stringent public procurement policy |
| Raw Material Procurement |
| <ul style="list-style-type: none">• Being able to procure at reasonable prices without being subject to daily fluctuations• Limited financial capabilities (and requiring comparatively small quantities), therefore less able to secure long term supply contracts to take advantage of bulk purchase prices and temporarily fixed supply rates |
| Display, design and Packaging |
| <ul style="list-style-type: none">• Unable to afford the investment in facilities required to improve products and packaging• Deficient knowledge and skills regarding creative and marketable designs amongst their workforce; lack of means to engage professionals in this field• Lack of knowledge of market requirements and customer expectations |
| Global Markets |
| <ul style="list-style-type: none">• Not having the required knowledge of potential world markets, demand for their products and services• Lack of professional competence to make efficient use of government support programmes• Lack of networking capabilities and skills needed to access international market |

This analysis looks at the problems in how these services are planned and executed and the results they lead to.

²³ Prime Minister's Task Force Report 2010, pp. 66

▲ PLANNING

Governments support SMEs on the “buy-side” by creating markets for SME products and on the “sell-side” by delivering marketing and trade promotion services to SMEs. Buy-side measures relate largely to pro-curement by the government from SMEs, thereby encouraging them to develop their production capabilities. Sell-side measures consist of a range of initiatives such as buyer-seller meets, participation in trade events, provision of market intelligence, trade finance, etc.

While buy-side measures have focused on enhancing Micro and Small Enterprise (MSE) contributions to government procurement, the MSE supply to the government is still negligible. This is because no part of the procurement budget is earmarked for sourcing from MSEs. There is also no prioritised plan for providing such procurement support to specific trades or sectors. However, a public procurement policy, drafted by MoMSME, was currently under consultation and review within the government while this study was being conducted.

Existing guidelines on SME procurement are non-binding and not followed by government agencies. This means that even MSMEs with National Small Industries Corporation (NSIC) backing fail to qualify for public tenders as some government agencies tend to disqualify NSIC as a prime bidder on technical grounds. For sell-side measures, KVIC and NSIC are two institutions that have a variety of programmes for SMEs that run concurrently with similar programmes by other ministries. While KVIC focuses on only rural industry (khadi and village enterprises), NSIC has programmes targeted at the general SME population. This is true also for the DC-MSME office, which acts as the implementation agency for many MoMSME programmes. Specialist agencies such as the Export Promotion Councils and the Indian Trade Promotion Organisation (ITPO) have programmes that serve the needs of all businesses, not necessarily only those of MSMEs.

Between KVIC's specific focus on rural industry and NSIC's general SME services, two important segments have been neglected: SMEs in India's services sector and micro enterprises. Most marketing support programmes have eligibility criteria which are difficult for micro enterprises to comply with. The growth of the services sector is a relatively recent phenomenon in the Indian economy. The institutional framework for SMEs in India, however, has its origins in the manufacturing sector and this legacy structure has not changed much, making most programmes and activities inappropriate for SMEs in the service sector.

Finally, providing effective marketing services depends on market intelligence and on the right distribution channels. However, there is no centralised mechanism for collating market data and performing regular analysis. Currently only NSIC has a specific Marketing Intelligence Cell²⁴ for the benefit of SMEs. Apart from this, units rely on information provided by industry-specific associations. SME representatives often complain about the lack of a research institute and coherent data on SME-related topics. Apart from KVIC, which has its own distribution outlets across the country for products from rural industry, there has been no meaningful development of distribution networks for SMEs by the government, either on its own or in partnership with the private sector. Most existing networks have been developed by SMEs and their business associations.

²⁴ See www.nsic.co.in/cmhc.asp

These issues are reflected in MoMSME’s budgetary allocation for marketing services. In FY 2009–10, MoMSME allocated 15.73% of expenditure for marketing support schemes²⁵. Individual national-level programmes such as the Market Development Assistance Scheme have low budgets, making implementation at national scale unrealistic.

EXECUTION

The delivery of marketing support services to SMEs is characterised by poor coordination, lack of market information and lengthy business processes.

Poor coordination results from several agencies independently running their own programmes. For example, the DCMSME office conducts marketing assistance activities through its Market Development Assistance Scheme, which includes the organisation of trade fairs and support for SME units to participate in them. At the same time, the Ministry of MSME allocates funds to NSIC to carry out a similar task, without there being a clear distinction in target group or outcomes. Another example is both NSIC and state-level SIDCs bidding for the same government tenders. Yet another example is that of the India International Trade Fair, where both NSIC and the DC-MSME office organise display pavilions for SMEs. Poor coordination leads to duplication and overlaps across programmes run by different agencies.

Lack of market information is also linked to poor coordination. It arises from multiple agencies having their own data collection and analysis mechanisms without sharing data to bring in greater efficiency and accuracy. This quite naturally often leads to incorrect or conflicting information. In the current situation, funds are provided to multiple agencies to conduct their own research instead of centralising data analytics as a shared service to be used by all agencies.

As with credit, the processes through which marketing services are delivered are often time consuming, needing multiple approvals. Participation in government procurement measures or trade fairs implies going through lengthy application procedures, which deters many SMEs, especially micro enterprises.

Execution problems are particularly severe in the case of KVIC, which receives the biggest share of MoMSME’s budget. The Asian Development Bank and the government have recently engaged in a joint initiative to restructure KVIC; their report²⁶ contains detailed operational assessments which are not repeated in this study. A few of this report’s key points about marketing services are summarised below:

- KVIC sales outlets are loss making, too rigid to adapt to market requirements and handicapped by poor infrastructure.
- Pricing of both inputs and products is heavily regulated, cutting them off from market pricing.
- There is no clear branding of KVIC products, leading to a gradually falling market share.

The weaknesses arising from KVIC’s direct participation in production and marketing, both of which could have been contracted to the private sector, has led to a situation where it is now only a channel for disbursing top-down government funds.

²⁵ MoMSME (2010), Annual Report 2009-10, Government of India
²⁶ ADB (2008), Report and Recommendations of the President to the Board of Directors – India: Khadi Reform and Development Programme

RESULTS

The performance or success of a programme is measured by an institution’s ability to generate the means to cover its salaries and fixed costs and spend funds devolved from higher levels. There is no systematic impact evaluation of outputs and outcomes. Statutory accounting audits are carried out with some regularity, although result-based audits lag behind.

SME representatives estimate that less than 1% of all Indian SMEs benefit from public marketing assistance measures. Using government procurement as an example, the value of orders executed under bids by NSIC amounted to only INR 500 million (0.029%) in FY 2008–09 compared to total government purchases of approximately INR 1700 billion. Government supply executed by KVIC in the same time amounted to just INR 320 million (0.018%). Out of approximately 13,000 tenders, only 390 received bids from SMEs; of these, only 15% to 20% have been awarded²⁷.

3.2.3 INFRASTRUCTURE, SKILL DEVELOPMENT AND TECHNOLOGY

The Prime Minister’s Task Force has identified issues related to infrastructural and technological requirements as well as adequate human resources as major obstacles in the development of Indian SMEs. Three categories of problems need to be addressed:

- Inadequate infrastructure facilities
- Low technology levels
- Lack of skilled workforce and low retention

The Prime Minister’s Task Force report and other studies have found a number of reasons why SMEs are at a disadvantage in terms of infrastructure, skills and technology. The following table summarises these factors for each of the three areas:

²⁷ Data from NSIC and KVIC

Table 11 Key challenges for Infrastructure, Skill Development and Technologies in India

| INDIA |
|---|
| Infrastructure |
| <ul style="list-style-type: none">SMEs are located in congested unorganised clusters or in ageing industrial areas without proper facilities leading to high transaction costs |
| <ul style="list-style-type: none">Supply of new industrial areas is limited due to lack of developers, complex regulations across agencies, and no provision to ensure the earmarking of land for SMEs in industrial estates |
| <ul style="list-style-type: none">Demand for new industrial areas is constrained due to expensive real estate, limited purchasing power of SMEs and complex system of regulatory approvals |
| <ul style="list-style-type: none">Infrastructure provision is shared by multiple government ministries, not just MSME |
| Skill Development |
| <ul style="list-style-type: none">With only 2% of the total Indian workforce having undergone formal skills training, SME personnel do not have skilled human resources to work with |
| <ul style="list-style-type: none">SME access to skilled personnel is highly limited due to low talent purchasing power; most SMEs hire untrained staff and train them in-house |
| <ul style="list-style-type: none">Training of employees is constrained by high employee attrition which creates disincentives for employers to invest in training |
| <ul style="list-style-type: none">Existing programmes unable to collaborate effectively with the private sector and have low coverage of SME target groups |
| <ul style="list-style-type: none">Demand for vocational training is low compared to training for “white collar” jobs; low capacity employees conversely cannot fulfil basic eligibility criteria for entry into these courses |
| <ul style="list-style-type: none">Existing training programmes cannot keep up with the changes in industrial and economic requirements |
| <ul style="list-style-type: none">Existing programmes traditionally address the manufacturing sector and have not kept pace with the growing role of the services sector in the economy |
| Technology |
| <ul style="list-style-type: none">Low levels of technology used by SMEs, especially micro and small enterprises |
| <ul style="list-style-type: none">SMEs lack basic tools, machinery and production technology; also characterised by low usage of information technology (IT) |
| <ul style="list-style-type: none">R&D products tends to be captured by large firms |
| <ul style="list-style-type: none">Existing government measures to create linkages and networks between industry and academia for technology development and to build capacity have not delivered required results |
| <ul style="list-style-type: none">Divergence of interests between research institutions (suppliers of technology) and the business requirements of SMEs (consumers of technology) |
| <ul style="list-style-type: none">Most existing technology research cannot be commercialised, is not relevant to SME requirements and is difficult to access |
| <ul style="list-style-type: none">There is virtually no “matchmaking” or integration between large firms and SMEs that can catalyse technological adoption in SMEs |
| <ul style="list-style-type: none">SMEs have low capacity to adopt higher levels of technology due to weakly skilled human resources |

Key challenges for Infrastructure, Skill Development and Technologies in India

Governmental support measures range from infrastructure and technology upgrades (particularly the crea- tion and maintenance of Common Facilities Centres, tool rooms, technology development centres and testing centres for raw material and product testing) to training and guidance of entrepreneurs and the workforce through training programmes and institutes. The measures are implemented within the framework outlined above by several institutions, of which DC-MSME and NSIC at the national level and DICs at state level are the most important, placing a particular focus on technology services and infrastructure upgrades and training programmes. For the support of khadi and village industries, KVIC undertakes infrastructure and skill development measures. The Department of Science and Technology, the Ministry of Textiles, the Ministry of Food Processing Industries, the National Institute for Entrepreneurship and Small Business Develop- ment (NIESBUD) and joint ventures such as India SME Technology Services Ltd. (ISTSL) engage in support activities within their respective competence areas. Additionally, there are private sector service providers, mainly in industry clusters, catering to MSMEs’ needs for common facilities such as material testing. The overview above touches on the specific problems affecting SMEs. All three of them are vital to SMEs. However, this section looks only at skill development in detail as it not only plays a significant role in enterprise performance but is also cross-connected to infrastructure and technology development aspects.

Table 12 Key issues “Skill Development” in India

| INDIA |
|---|
| Skill Development |
| Planning |
| <ul style="list-style-type: none">Lack of stringent targeting of support programmes |
| <ul style="list-style-type: none">Lack of institutional specialisation |
| <ul style="list-style-type: none">Scope and budget of support measures do not correspond with demand |
| Execution |
| <ul style="list-style-type: none">Insufficient coordination of the numerous institutions and subunits |
| <ul style="list-style-type: none">Lack of desired quality in service offerings |
| <ul style="list-style-type: none">Institutions faces bottlenecks such as inadequate quantity and quality of core staff, centralisation of decision-making power, lack of motivation to compete in the open market |
| Results |
| <ul style="list-style-type: none">Performance of the institution measured by cost efficiency rather than by the impact its services and programmes have on MSMEs |

Against the projected requirement of 500 million strong skilled workforce by the year 2022, the current supply pool of skilled talent comprising a technically and vocationally qualified and skilled workforce²⁸ is only around 3.4 million.²⁹ Although the lack of skilled workers is an issue affecting enterprises of all sizes, it is a greater cause for concern to MSMEs (rather than to large enterprises) because of the factors

²⁸ This is limited to those who can fit as workers, supervisors and entry- to mid-level managers in manufacturing and service sectors, either organised or unorganised, and doesn't include other streams such as other forms of higher education and research.

²⁹ FICCI (2010), Background paper on skill development landscape in India

mentioned above. As per the national policy on skill development, the majority of the sectors that would need sizeable numbers of skilled staff are those that are largely composed of MSMEs. The greatest requirement³⁰ of skilled workforce is at the lowest end of the skill pyramid, which is also the major need of MSMEs. In addition to the quantity, other challenges that are related to skill development and are relevant for MSMEs are industry-driven training and ensuring quality. Although skill development, specifically Vocational and Educational Training as a whole, is the prime responsibility of the Ministry of Labour and Employment and the National Skill Development Corporation, various ministries and departments have their own initiatives and complementary the efforts as per their area of priority.³¹ Continuing with the overall approach of this study, we focus on MoMSME initiatives and institutions.

The following analysis of the described efforts is being led by the question whether these efforts are adequate and effective in order to reach SMEs and address the issues related with Skill Development and technical services

PLANNING

MoMSME undertakes various initiatives and support schemes related to skill development, and has institutional arrangements in place to implement these measures. All the initiatives fall broadly into the categories of entrepreneurship development training and technical services and vocational training. Looking at MSME institutional arrangements and the service offerings, one point that emerges is that there is not much to distinguish between the institutional arrangements for technology-related services and those for skill development. The main approach being followed is the creation of point-of-service network, which provides services (both skill development and technical) to meet the need of MSMEs.)

Similar to other service areas of credit and marketing, a large number of issues are tackled by several schemes and institutions. In some cases, these overlaps are beneficial as they target different sets of beneficiaries. Most of the time, however, a stringent targeting of the measures is missing.

An example can be taken from the provision of entrepreneurial training. Almost all the schemes catering to human resource development put an emphasis on skill development of potential business owners without clearly differentiating between types of businesses or target groups.³² This leads to an inefficient allocation of resources, as it requires every institution involved to develop expertise in the area of entrepreneurship development instead of acquiring specialist knowledge.

From the recipients' point of view, it reduces the ability to choose a suitable programme, as well as lowers their confidence in the programme's quality, especially when they are offered at different rates or apply different eligibility criteria.³³

A further deficiency in planning perceived by SME representatives is the tendency to set up various small-scale schemes, addressing specific yet rather limited issues, instead of designing large-scale programmes. It is felt that the current approach fails to produce significant outcomes. This can be seen particularly in the service field of technology and skill development, where numerous common facility points and support

³⁰ According to a NSDC survey, this comprises about 50% of total demand

³¹ For example, the Ministry of Rural Development has an extensive programme to train rural youth who fall below the poverty line.

³² See MoMSME Annual Report 2010, p. 100 et al.

³³ Perception of stakeholders consulted as part of the study.

³⁴ See for example DC-MSME scheme-wise budget outlay 2010–11.

schemes are established without there being an overarching plan. Some of them have marginal budgets,³⁴ thus limiting the potential and the capabilities of the measures right from the outset. Combining and streamlining them within larger programmes could enhance efficiency by reducing coordination efforts and facilitate evaluation.

EXECUTION

The National Institute for Entrepreneurship and Small Business Development (NIESBUD), the National Institute for Micro, Small and Medium Enterprise (NIMSME) and the Indian Institute of Entrepreneurship (IIE), along with DC-MSME through its branch network of 58 MSME Development Institutes (DIs), are the important channels through which training is delivered. For skill development related to vocational training and the providing of technical services, DC-MSME, with its network of tool rooms, testing centres, MSME DIs and training design institutes, is the main institution under MoMSME. In addition to this, NSIC through its technical services centre, incubation centre and technology-cum-incubation centre is another important institution facilitating these activities.

As is the case with the other service fields, the main challenge public institutions face when executing support schemes with reference to skill development is the effective organisation of the measures undertaken, along with the efficient allocation of resources. Moreover, efforts do not appear to have been coordinated enough to avoid overlaps and parallels. It is felt that in many areas, particularly with reference to training programmes, a large potential of integration is left idle. One reason for the insufficient harmonisation of the current system may be the shortage of internal reviews and the inadequate evaluation criteria applied. The general problem of limited awareness about the services offered also applies to the service field of skill development and technical services. This is particularly true for micro units and potential entrepreneurs who are not familiar with the existing Business Development Services (BDS) structures in their respective sector. Government institutions seem to be plagued by an incapacity to keep pace with changing industry needs and face bottlenecks related to inadequate quantity and quality of core staff, centralisation of decision-making power, lack of motivation, budget inadequacy, lack of cooperation from other concerned agencies etc and are thus unable to provide the desired quality of services.

RESULTS

Regarding the actual outreach however, the current situation is far from satisfying. In terms of relative numbers, most institutions appear to have continuously improved their performance in comparison to previous years and in the targets they have set themselves. DC-MSME, for example, claims to have exceeded its target of assisting 11,900 units in its tool rooms through FY 2008–09 by actually addressing 13,971 units.³⁵ NSIC has increased the revenue of its Technical Services Centres from INR 107.5 million to INR 125.4 million in FY 2008–09.³⁶ Yet the actual number of units reached by skill development and technical services programmes is negligible, bearing in mind the total number of approximately 26 million SMEs in India and the overall allocated target of MoMSME to train 15 million SMEs by the year 2020.³⁷ The performance of the institutions is measured by cost-efficiency rather than by the impact their services and programmes have on the SME sector. Self-sustainability is doubtless an important criterion while measuring the performance of any institution but outreach, impact and measuring the fulfilment of promotional goals is equally important.

³⁵ MoMSME outlay Budget Report 2010–11, p. 79.

³⁶ NSIC Annual Report, Director's report, p. 3; <http://www.nsic.co.in/directorsreport0809.pdf>.

³⁷ Planning Commission (2010), Mid-Term Appraisal of the Eleventh Five Year Plan, Government of India

³⁸ For example MoMSME Annual Report 2010, p. 89 lists as performance highlights of NSIC its economic performance and increase in revenue, rather than the number of SMEs and impact achieved by its programmes.

It is hard to find any data, even from the small number of people trained under various entrepreneurship development programmes, about how many were successfully able to set up an industry.

3.3 Cross-cutting Institutional Aspects

- Lack of prioritised planning
- No functional specialisation of organisations
- Weak implementation capability of organisations
- Top-down, direct provision of services rather than creating partnerships and encouraging private sector provision

Over time, there has been a policy shift in reducing budget allocations to institutions delivering SME services and in promoting the financial self-sufficiency of SME programmes and projects, for instance, through Public-Private Partnerships (PPP). This has been accompanied by a planned move away from the direct provision of services to the creation of an enabling environment for the private provision of such services. However, the state's withdrawal from its role as direct service provider within the framework of MSME support programmes (e.g. from tool rooms, testing labs, industrial parks, technology advisory services etc.) is expected to be a slow process. Consequently, the handover to and involvement of private service providers on PPP mode is just as slow. These policy shifts, highlighted in the Eleventh Five Year Plan, have not yet translated into practice on the ground.

The underlying reasons go beyond the service-specific problems discussed in the previous sections. They also relate to cross-cutting problems that affect the overall institutional framework. These are:

A Lack of prioritised planning and functional specialisation

The mandates of each of the three key organisations (NSIC, DC-MSME, SIDBI) are all encompassing. MoMSME's annual plans contain a wide range of support policies and programmes with similar components implemented by different agencies. There is no planning instrument which prioritises support services based on specific criteria such as subsector, trade, level of technology, or position in the marketing value chain (an example of this is the Cluster Development Programme which lacks a clear definition of the type of clusters at which the programme is targeted). This relates only to MoMSME and its associate institutions. It is hard to achieve a substantial impact on the overall system without clear focus, prioritisation and an understanding of those services the state needs to guarantee and deliver and those for which it can play a facilitator role.

There are several ministries running their own MSME programmes without coordination with MoMSME. In fact, there exists no institutional mechanism which can coherently coordinate the programmes of MoMSME, other ministries and their associated agencies. As a result, every institution ends up implementing largely similar programmes and activities.

One effect of this "include everything" type of planning is a MoMSME budget that is spread across too many activities. There are several budgetary heads for schemes with small budget allocations. Budget allocation for certain national-level programmes are sometimes less than INR 10 million. It is hard to see what level of impact can be achieved with such limited resources for a programme.

B Relatively small scale of outreach and impact

Key national level MSME institutions have programme coverage that needs to reach a scale where it can make an impact on India's MSME population. In addition, over 90% of MSME continue to be unregistered according to the government's MSME Census, indicating weak incentives to register as a formal entity and be eligible for government support services. Agencies at lower levels, such as the District Industries Centres (DIC), State Financial Corporations (SFC) and State Industrial Development Corporations (SIDC), are handicapped by ageing infrastructure and rigid processes. Some agencies, such as DICs, are not only troubled by staff vacancies, but by poorly trained existing staff who do not possess the technical knowledge and skills to help SMEs with business problems. The original infrastructure endowment given to DICs has not been regularly upgraded; as a result, they fail to attract SMEs, who are likelier to go to private service providers. Feedback from the ground level consistently point to a perception by MSME that government services remain difficult to access. Where the option exists, most enterprises prefer services offered by private service providers (data from the 1993 FNST-NCAER survey, the most recent study of its kind that is available, indicates that the percentage of SMEs obtaining non-financial services from various institutional sources during a period of three years was less than 6%).

The overall impact of these aspects impedes the efficient delivery of services to SMEs and results in limited outreach and impact.

C Inflexible approach of direct provision of services by government

Although the policy discourse in India has moved away from direct government provision of services to alternative approaches such as Public-Private Partnerships (PPPs), this shift has not happened in actual programme implementation. SME promotional measures continue to have the characteristics of a traditional top-down approach that attempts to be a monopoly provider of services without leveraging the strengths of the private sector.

The decentralisation of services to business associations and private service providers has not taken place. Unlike the Indian economy of the 1950s, there exists today a pool of business development services providers who can deliver a wide range of financial and non-financial services to SMEs. Globally, strong business associations and chambers of commerce are not just lobbying organisations but also partnering with governments to provide a variety of market facilitation services to their member SMEs.

In India, however, the implementation of programmes (schemes) remains a vertical, rigid government-run process with limited autonomy given to the implementing units or to the recipients of such services. Conversely, the role played by SME business associations in India has continued to be primarily that of a business lobby rather than a service provider. Existing programmes neither strengthen the organisational capabilities of business associations nor create markets for private service providers. It is hard to see how the objective of moving away from direct service provision to PPPs, as defined in the Eleventh Five Year Plan, can be achieved in such a setting.

04 International Assessment

From the international sample described in Chapter 1, the study picked institutions whose planning and operational mechanisms best address the problems discussed in Chapters 2 and 3. In addition, these institutions operate in administrative environments that are similar in many aspects to the Indian administrative framework – they are part of a larger framework of institutions working at several levels and do not have direct reporting relationships with many of them, implying that service delivery is through coordination, not top-down direct provision.

Section 4.1 outlines international best practices in the planning and delivery of specific services – credit, marketing, skill development and technology. Section 4.2 identifies best practices that are common across the selected institutions. These sections summarises detailed information on international institutions which are separately provided in the annexes with citations of sources.

Table 13 SME Services Related Best Practices

| SME SERVICE AREA | COUNTRY | INSTITUTIONS |
|-------------------------------|-----------------|---|
| Credit | Malaysia | • SME Corporation Malaysia (SME Corp) |
| | South Africa | • Industry Development Corporation (IDC), Khula Enterprise Finance Limited (KEF), South African Micro Finance Apex Fund (SAMAF), South African Small Enterprise Development Agency (SEDA) |
| Marketing | USA | • Small Business Administration (SBA), US Commercial Service (USCS) |
| | European Union* | • Enterprise Europe Network |
| Skill Development, Technology | USA | • Small Business Administration (SBA) |
| | Japan | • Organisation for Small and Medium Enterprises and Regional Innovation (SMRJ) |
| | South Korea | • Small Medium Business Administration (SMBA) • Korean Technology Credit Guarantee Fund (KOTEC) |

* EU as a confederation of member countries, not as individual nations

4.1 CREDIT
Table 14 Key examples for credit provision to SMEs in Malaysia and South Africa

| MALAYSIA |
|--|
| Credit |
| Planning |
| • Three planning tools with different timeframes (15, 5 and 1 year) |
| • Regular census and productivity surveys of SME |
| Execution |
| • Banking network dominant credit channel, followed by Development Finance Institutions (DFIs) |
| • Centralised, sharable borrower information databas |
| • Client charters for responding to credit applications |
| • Ranks SMEs on business parameters to prioritise access to services |
| • Offers debt restructuring facility to SMEs unable to service loans |
| Results |
| • Impact Analysis Framework on SME Programmes (IAFSP) to evaluate programmes based on Key Performance Indicators |

| SOUTH AFRICA |
|--|
| Credit |
| Planning |
| • Medium term strategic framework which define high level goals for SME financing |
| • Targeted services for five enterprise sizes – survivalist, micro, very small, small and medium |
| Execution |
| • Three different institutions for small, micro and medium size enterprises respectively |
| • Small Enterprise Development Agency (SEDA) spreads product awareness and financial literacy |
| Results |
| • Statutory accounting audits of all financial institutions |
| • Enterprise Development Business Unit conducts performance evaluation |

Malaysia and South African institutions have been selected to identify best practices in delivering credit to SMEs. Both Malaysia and South Africa have high scores (1 and 2 respectively) in the “Access to Credit” parameter of the International Finance Corporation–World Bank 2010 Doing Business Survey of more than 130 countries. Malaysia has a dedicated federal executive agency called SME Corporation Malaysia (SME Corp), while South Africa delivers credit through three agencies: Industrial Development Corporation (IDC), Khula Enterprise Finance Ltd. (KEF) and South African Micro Finance Apex Fund (SAMAF).

The Malaysian SME Corp plays the role of an apex coordinating and execution agency for policies developed by the National SME Development Council (NSDC), the highest legislative body for SMEs in Malaysia. Together, they constitute the executive and legislative hubs for all SME-related interventions by the Malaysian government.

In South Africa, IDC, KEF and SAMAF each cater to different SME credit segments. In addition, there is the South African Small Enterprise Development Agency (SEDA), an organisation mandated to establish a common network of service delivery to SMEs throughout South Africa. Although it is not authorised to provide financial services, it is a key provider of information and advisory services to SMEs.

PLANNING

Malaysia uses planning instruments of varying timeframes, ranging from a 15-year industrial master plan to an annual action plan for SME services. The current planning instruments used by the government are:

- Third Industrial Master Plan (IMP3): defines SME promotion strategies for all sectors over a 15-year period.
- Ninth Malaysia Plan (9MP) 2006–10: defines SME promotion strategies in the four areas of outsourcing, inter-firm linkages, entrepreneurship programmes and knowledge skills.
- Annual SME Integrated Plan of Action: key operational plan to prioritise SME services into the three categories of strengthening the enabling infrastructure, building the capacity and capability of domestic SMEs and enhancing SME access to financing.

SME data for planning is sourced from the Census of Establishments and Enterprises (conducted by the Department of Statistics) and productivity surveys of manufacturing and services sectors (conducted by the Malaysia Productivity Corporation).

In South Africa, the Department of Trade and Industry (DTI) develops a medium-term strategic framework which defines high-level goals for SME financing for five different enterprise sizes – survivalist, micro, very small, small and medium. The number of SME in South Africa is estimated to be between 1 and 3 million. If survivalist and micro businesses are excluded, the number is in the range of 250,000 to 650,000 enterprises, which represents a contribution to GDP of about 50%; the contribution to employment is even more. The South African government has developed the “Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises”. This strategy calls for a “Think Synergies First” approach to SME promotion, which mainly revolves around the fact that this task can only be completed by the joint efforts of both the public and the private sector. It stipulates that no new support programme or scheme is to be implemented without first assessing whether it adds value to the existing support framework and complements/reinforces it in a manner that integrates all role players and offerings.

To ensure integration within the government, an Inter-Departmental Committee on Entrepreneurship and Small Business Promotion has been set up, steered by DTI. Its mandate is to effectively coordinate policies and measures across the government and monitor the government’s performance in SME promotion. An important feature of the Integrated Strategy is the inclusion of the private sector, whose function is particularly seen in providing enterprise education, including financial literacy programmes, developing procurement from SMEs and the implementation of comprehensive enterprise development programmes. The inclusion of the private sector is supposed to actively involve business associations such as Business Unity South Africa (BUSA), the Chambers of Commerce and Industry and the Corporate SMME Development Forum (CSDF). It was decided that the coordination of these initiatives was not to be carried out by a specific institution but was to be delegated to the Enterprise and Industry Development Division, a division of DTI, via a partnership agreement with DTI.

As the Integrated Strategy is meant to cut across all levels of the support framework, it also requires the involvement of regional institutions and entities. Examples of regional institutions are the Gauteng Enterprise Propeller (GEP), a government agency for SME support in the province of Gauteng, or the Limpopo Business Support Agency (LIBSA). Both of them provide financial and non-financial support to entrepreneurs

and existing SMEs, which includes access to finance at fair conditions, start-up assistance, consultancy services and training activities. Both institutions are meant to be one-stop service providers. In addition, they also engage in community development and the establishment of linkages to large companies supporting SMEs. LIBSA operates through a network of 20 branch offices spread throughout the province, while GEP maintains 12 regional and satellite offices.

DTI operates a Regional Industrial Development Strategy (RIDS) aimed at the establishment of special economic zones, such as industrial parks and estates, logistics parks, innovation hubs etc to promote the formation and growth of SME clusters. The areas provide common facilities such as water, power and transport services to facilitate the growth of the companies located there and at the same time minimise the impact on the environment. With reference to the promotion of clusters, the policy of the government has been changed from keeping inefficient clusters afloat by large financial subsidies to investing in the development of human resources and institutions that have the capacities to develop active, market based-clusters. These capacities are provided at the government level, within the firms participating in the cluster and at the level of the neutral facilitators linking the two.

The strategy also encourages the establishment of Regional Growth Coalitions in which private sector actors play a key role. The involvement of the government in these coalitions varies throughout the regions. Depending on the state of the private sector and its diversification, it ranges from encouraging cooperation and providing an enabling environment to taking a leading role in the Coalitions (a role which is, however, always meant to be temporary).

SME promotion activities have been institutionalised in South Africa since the Small Business Act of 1996. The act has been amended three times, in 2003, 2004 and 2006. These amendments have transformed the landscape of national institutions involved in SME promotion. One example is the creation of SAMAF in 2006 as a response to the need of financing the poorest and so-called survivalist enterprises in South Africa. Another example of reforms is the creation of the Small Enterprise Development Agency (SEDA) in 2004 in response to the lack of a common service delivery network for SMEs that was the cause of insufficient awareness about government programmes.

There are three main institutions for providing credit to SMEs – IDC, KEF and SAMAF. IDC and KEF are independent, self-financing, limited liability companies. SAMAF, on the other hand, is a trading entity of DTI that is mandated to build a sustainable micro-finance infrastructure in South Africa, particularly in the informal sector where most of the survivalist and micro enterprises operate. Although these institutions have a degree of overlap in terms of target audience, they work within highly targeted SME segments in South Africa, covering the three main needs of financing for the SME population:

- Sector- and industry-specific financing needs (industrial development)
- Access and availability needs as well as collateral needs
- Availability of financing for the poorest (informal sector, micro enterprise financing)

EXECUTION

The effectiveness and quality of Malaysia’s services delivery to SMEs relies upon a network of public and private financial institutions, computerised credit profiles of borrowers, high rate of approvals, client service charters, business competitiveness ranking of SMEs to prioritise access to services and, finally, a debt restructuring programme for SMEs.

- ▲ **Multiple credit channels:** a network of commercial banks, development finance institutions (DFIs), government grants and loans (through programmes/schemes), venture capital, factoring and leasing services. Banks are the dominant channels through which around 80% of the credit is disbursed, followed by DFIs which have a share of around 11% (based on February 2010 data).
- ▲ **Centralised, sharable borrower information:** the central bank, Bank Negara Malaysia (BNM), maintains a Central Credit Reference Information System (CCRIS) containing the credit histories of all borrowers, including 28,200 SMEs. BNM manages a centralised agency called SME Credit Bureau that shares CCRIS with other financial institutions to evaluate loan applications. This is probably the reason why Malaysia has a consistently high rate of credit approvals (in the period 2003–10, the approval rate for SME loans was 84% on average, according to data from the central bank).
- ▲ **Client charters for financial products for SMEs:** all credit agencies are bound by client charters that specify service levels for each financial product e.g. all applications to SME Corp for matching grants are processed within 30 working days, upon submission of complete information.
- ▲ **SME competitiveness scores:** online assessment for firms to obtain SME Competitiveness Rating for Enhancement (SCORE) on various business parameters. Firms scoring 4 or higher (on a scale of 5) are eligible for further services from Malaysia External Trade Development Corporation (MATRADE). SMEs in the technology sector can qualify for the 1-InnoCERT (1-Innovation Certification for Enterprise Rating and Transformation) to obtain fast-track access to finance and advisory services.
- ▲ **SME debt restructuring:** the Small Debt Resolution Scheme run by SME Corp through a network of banks and DFIs provides debt-restructuring facilities to SMEs that are unable to service their existing debt obligations. In South Africa, DTI regulates three different institutions to supply credit to different firms ranging in size from survivalist to medium:
 - ▲ IDC finances South African businesses in general, but directs 61% of its funds to SMEs.
 - ▲ KEF provides loans and non-financial services (such as business mentorship) to SMEs through different partner institutional networks – NGOs (funds for onward lending, interest-free seed capital, grants), commercial banks (credit guarantees) and private equity funds (entrepreneurship funds).
 - ▲ SAMAF provides credit to micro enterprises through partnerships with traditional financial channels such as burial societies and stokvels (savings clubs formed by local communities).

SAMAF is tasked by DTI to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for the purpose of growing their own income and asset base. The products of SAMAF can be categorised into:

- ▲ Micro enterprise loans, which are offered to financial intermediaries who lend onward to firms
- ▲ Development loans given to Financial Services Cooperatives (FSCs) and Micro-Finance Institutions (MFIs), who lend onward to their clients (households with an income of Rs 1,500 or less)

In addition, SAMAF offers general support to FSCs and MFIs through capacity building, covering of operational costs, mobilising savings and providing management information systems. Furthermore, it supports other already established formations, such as burial societies and stokvels, that favour the accumulation of locally owned and invested wealth. The long-term goal is to build a network of self-sufficient and sustainable micro-finance institutions. SAMAF places a particular focus on rural areas, where most survivalist and micro enterprises can be found.

In South Africa, many survivalist and micro businesses are also run by black entrepreneurs. South Africa has an institution called the National Empowerment Fund (NEF) that is targeted specifically at black economic empowerment. Its main task is to provide finance and financial services to black enterprises. Through its Imbewu Fund, it provides risk capital to new and early-stage enterprises run by black persons who meet certain criteria. These criteria include a minimum black ownership of 50.1%, a minimum employment of 5 employees as well as the obligatory participation in NEF mentorship programmes. The maximum investment is R 5 million with an investment horizon of five to seven years.

Further, this fund runs a rural and community development programme aiming at an increased representation of black persons in the executive organs of enterprises and supporting joint ventures between black and non-black partners to empower local communities and generate employment. SAMAF raises awareness of its products through radio and television broadcasting.

The Small Enterprise Development Agency (SEDA), while not disbursing credit directly, plays a key role in educating and raising awareness of the financial services of which SMEs can avail. It uses its network of nine provincial offices, 42 district branches, four mobile units and 46 Enterprise Information Centres. Another important feature of South Africa's approach to improving the situation of the informal sector is the effort put into improving financial literacy amongst small-scale business owners. Amongst survivalist and micro enterprises, a high degree of financial literacy leads to facilitated access to all kinds of financial services as well as to more effective and reliable business operations and thus to growth. On the government level, both DTI and the Department of Education and Labour run programmes to improve financial literacy. An example is a campaign on the risks and consequences of over-indebtedness run by the Banking Council, which DTI has partially funded.

However, a large part of financial education is carried out by the financial industry, including industry bodies and individual institutions. One important player is the Financial Services Board (FSB), which is an independent institution established by statute, whose mandate is to oversee the non-banking financial services industry in public interest. FSB runs a Consumer Education Department that provides education on effective saving and debt management as well as information on financial products and services and the related customer rights. Other institutions engaged in financial education are industry bodies such as the Micro Finance Regulatory Council, corporate foundations of financial institutions such as the Teba Bank and certain NGOs such as You and You Money.

RESULTS

Malaysia's SME Corp has introduced a new Impact Analysis Framework on SME Programmes (IAFSP) to track the implementation of programmes and undertake independent assessments using an outcome-based approach. Further information on the indicators and formats used by the IAFSP is not yet available and is expected to be released with the publication of the first results of analysis currently underway. In South Africa, all institutions have statutory accounting audits. In addition, the Enterprise Development Business Unit within DTI conducts performance evaluations.

4.2 Marketing

Table 15 Key examples “Marketing” from the USA and the EU

| USA |
|--|
| Marketing |
| Planning |
| <ul style="list-style-type: none">Goaling Programme sets targets for federal executive agencies to procure from SMEs; targets set and monitored on an annual basisSBA has a five-year Strategic Plan and ITA has a six-year Strategic Plan with goals, outputs and measurable indicators |
| Execution |
| <ul style="list-style-type: none">Single-window provision of services: Export.gov for export promotion and BuyUSA.gov for foreign firms searching for business partnerships with US SMEsExport Assistance Centres in US (all 50 states) and abroad (in 123 countries) and in five major development banks (including the World Bank) for one-stop service to SMEsFree legal assistance to SMEs engaged in export; trade finance products for SMEs; free or subsidised market intelligence and trade data |
| Results |
| <ul style="list-style-type: none">The US Small Business Administration (SBA) monitors procurement targets by using data from the Federal Procurement Data System (FPDS)Small Business Procurement Scorecard to assess prime contracting to SMEs by 24 federal agenciesSBA annual report to the US President on each federal agency's efforts in promoting SMEs |

| EUROPEAN UNION |
|---|
| Marketing |
| Planning |
| <ul style="list-style-type: none">Directive to standardise government tender procedures above a certain thresholdCode of conduct for government procurement regarding SMEs |
| Execution |
| <ul style="list-style-type: none">Tenders Electronic Daily (TED) is an online procurement platform for all EU tendersEU Publications Office develops online tools for easy submission of bidsEnterprise Europe Network conducts SME matchmaking events across the EUBusiness Centres in select markets staffed by EU Market Access Teams |
| Results |
| <ul style="list-style-type: none">The European Union monitors implementation of its Directives through the SME performance Review including Country Factsheets for each member states and the state of implementation of SME promotion policies proposed through the DirectivesThe Eurobarometer is an annual survey that also takes into account SME performances and issues such as export activities of SMEs or improvement of business environment |

Institutions in the USA and the EU have been selected to identify good practices in marketing services for SMEs. The USA scores highly in indicators related to marketing and trade promotion in the Global Competitiveness Index 2009–10. It is also ranked 18 in the “Trading across Borders” parameter of the International Finance Corporation–World Bank 2010 Doing Business Survey.

The EU as a whole does not have rankings, but member countries do. The EU has been selected for the way in which it administers a confederation of member nations who have substantial powers to determine their own policies. It is considered a good example of collaborative, as compared to top-down, administration.

The USA delivers marketing assistance to SMEs through the US Small Business Administration (SBA) as well as the US Commercial Service (USCS), both of which report to the Department of Commerce. SBA is the apex executive agency coordinating all SME-related services.

In the EU, the Enterprise Europe Network loosely coordinates marketing and trade promotion efforts of member counties through matchmaking and better information dissemination.

Further, the EU is a good example of an administration where high-level polices, best practices and guide-lines are defined at a supra-national level, and the individual member states then develop more specific policies and programmes to comply with these overarching goals. This section looks at public procurement in France, Hungary Germany and the UK to illustrate how this works.

PLANNING

In the US, SBA and USCS are both members of the Trade Promotion Coordinating Committee (TPCC). TPCC, chaired by the Secretary of Commerce, consists of 19 US federal agencies that work together to coordinate and streamline trade promotion and financing services.

To create markets for SME products and services, SBA has established a Goaling Programme which sets statutory targets for federal executive agencies to procure a certain proportion from SMEs. Targets are set and monitored on an annual basis with current levels being:

- 23% prime contracts for SMEs
- 5% of prime and subcontracts for women-owned SMEs
- 3% of prime contracts for HUBZone SMEs (US government programme for SMEs in disadvantageous locations)
- 3% of prime and subcontracts for service-disabled veteran-owned SMEs

Each federal agency must also set its own annual goal in line with these statutory targets. SBA negotiates with agencies to establish individual goals. Within SBA, the Office of Government Contracting and Business Development provides assistance to SMEs in utilising the Goaling Programme. This office also sets the size standards that determine when a business is considered an SME.

For general marketing support, including trade promotion services, SBA organises activities in line with a five-year Strategic Plan. USCS plans around the six-year Strategic Plan of the Department of Commerce to which it belongs. These strategic plans have defined goals and outputs and performance indicators for each goal and output.

39 European Union (2005), Implementing the Community Lisbon programme – Modern SME policy for growth and employment [COM (2005) 551]

In the European Union (EU), overall SME promotion follows five thematic areas outlined in the Community Lisbon programme³⁹ of which one is “Improving SME Access to Markets”. Better access to tenders on the public market, greater participation in the standardisation process, increased awareness of intellectual property rights and support for inter-enterprise cooperation, particularly in border regions, are points defined in this area by the programme. SME access to international markets is also included as an area of assistance to SMEs.

The European Directive 2004/18 regulates public procurement procedures for all public tenders above a certain threshold of contract value⁴⁰. Though this does not specify procurement targets for SMEs, it standardises tender procedures for all contracts above a certain value to make it easier for firms to put in bids. The EU has also published a Code of Conduct that provides guidelines to government agencies in member nations on how to make it easier for SMEs to access public procurements. Member countries design specific policies in line with the broad policies set by the EU. The examples set by the UK, France and Hungary are taken up to showcase country-level policies promoting public procurement from SMEs. The following table compares the procurement policy and planning across these three countries.

Table 16 Public procurement policy for SMEs in EU member states

| | FRANCE | UK | HUNGARY |
|------------------------------|---|--|--|
| Legislation | Code des Marches Publics (CMP) | National Policy on Value for Money (VFM) | Act CXXIX of 2003 on Public Procurement and amendments |
| Salient points ⁴¹ | <ul style="list-style-type: none">• Large public contracts to be broken into smaller contracts where SMEs can also bid• No disqualification of bids by SMEs on grounds of lack of references in a particular sector or market; proposal should still be evaluated in such cases• Delay in payment to contractors fixed to a limit of 30 days in order to encourage SMEs to bid for public contracts | <ul style="list-style-type: none">• Tenders especially relevant for SMEs should be highlighted in the advertising process• Subcontracting opportunities by prime contractors should be available on the public procurement website www.supply2.gov.uk• Public procurer should ensure that SMEs who act as subcontractors have contract conditions that are no worse than those applicable to the prime contractor• Central government departments should annually report on value of contract spend with SMEs | <ul style="list-style-type: none">• Large public contracts must be broken down into smaller contracts whenever this is technically feasible and viable• For “broken down” contracts, selection criteria must match the value of the individual lots rather than the total value• Procurer may not ask for submission of documents from bidding firms which they can easily and freely obtain otherwise• Procurer must pay contracting firm within 30 days after performance of contract |

⁴⁰ The threshold value varies for different contracts. For instance, it is € 4,845,000 for public works and € 193,000 for service contracts. Also see the European Union section in Annexe II for further details.

⁴¹ See Annex 2 for details of specific policy clauses

To improve the responsiveness of policies, the Envoy for Small and Medium-Sized Enterprises acts as the interface between the European Commission and the SME community. The Envoy listens to SME concerns and represents their interests in the EU’s law-making process. The European Commission is also encouraging member states and regions to adopt similar measures, ensuring greater representation of SME interests at all levels of policy-making.

General marketing support to SMEs is provided by member countries of the EU in broad compliance with the areas in the Community Lisbon Programme.

EXECUTION

In the US, both SBA and USCS offer a range of market promotion services to American SMEs, in conjunction with each other for certain services. Both coordinate services through Export.gov (export promotion services) and BuyUSA.gov (for foreign firms searching for business partnerships with US SMEs.) This online facility is complemented by the physical infrastructure of Export Assistance Centres, which are located in all 50 US states, in 123 other countries and in five major development banks (including the World Bank), and which provide one-stop service to SMEs. Both agencies also provide legal assistance, trade finance and free or subsidised market intelligence and trade data. These products and services are summarised below.

Table 17 Marketing services offered by US-SBA and USCS

| US SMALL BUSINESS ADMINISTRATION (SBA) | US COMMERCIAL SERVICE (USCS) |
|--|--|
| Finance | |
| <ul style="list-style-type: none">• Export Express: SBA-backed loans and lines of credit of up to USD250,000 through participating US banks who do not normally lend against export receivables; guarantees of up to 90% on export loans | <ul style="list-style-type: none">• Trade Finance and Insurance: tailoring export finance strategy for a particular SME using a combination of loans from the Export-Import Bank of America, SBA and other trade finance organisations |
| <ul style="list-style-type: none">• Export Working Capital Loan: for SMEs that are able to export and need working capital to support these sales; lines of credit of up to USD2 million and guarantees of up to 90% of loan value for participating banks | |
| <ul style="list-style-type: none">• International Trade Loan: term loans for SMEs who want to start/develop export market(s) or for SMEs who have been affected by cheap imports; loans of up to USD2 million with guarantees of up to USD1.5 million to the participating lender bank | |
| <ul style="list-style-type: none">• Export Credit Insurance | |
| Export Assistance | |
| <ul style="list-style-type: none">• Export Assistance Centres | |
| Information | |
| <ul style="list-style-type: none">• Online tariff search | <ul style="list-style-type: none">• Market Intelligence: free country and industry reports, customised market research, background checks on foreign firms, trade data and analysis |
| <ul style="list-style-type: none">• Schedule B Number Classification system | |
| <ul style="list-style-type: none">• SBA Export Library | |

| Legal | |
|-----------------------------------|---|
| • Export Legal Assistance Network | |
| Export Promotion | |
| | <ul style="list-style-type: none">• Commercial Diplomacy: diplomatic negotiations with foreign governments for access to their markets and to protect US business interests abroad, especially when bidding for foreign government tenders |
| | <ul style="list-style-type: none">• Business Match-making: Search, identify and facilitate interactions with pre-screened business partners overseas; organise trade missions led by senior US government leaders and trade shows; organise in-country promotional events (includes featuring SMEs on local language websites). |

In the EU, the EU Publications Office centralises all calls for tenders that are above the threshold of contract value fixed by the European Directive. They are available in a common format and with common vocabulary on the Tenders Electronically Daily (TED) website. The EU Publications Office additionally offers web tools that enable contracting authorities to publish tenders in the common format, thereby enhancing the implementation. Public institutions in member countries have the facility of using eNotices, a web tool to prepare procurement notices, and eSenders, a web tool to submit tenders online.

The Enterprise Europe Network was established in 2008 by the EU as an umbrella organisation for facilitating access to global and domestic markets. It acts as a central agency that works in collaboration with 567 partner organisations to advise SMEs on marketing services and trade promotion initiatives. The EU has set up Market Access Teams in 30 key export markets. These teams provide effective information on existing trade barriers and market opportunities for European companies. The Market Access teams also provide an exhaustive database of information on accessing different country markets and publish a guidebook for SMEs in 23 languages.

The EU is also setting up business centres in a few markets. These centres help EU SMEs who wish to set up and trade in these countries by providing them with business support services that include market access assistance, finding commercial partners, logistical support and advice on issues such as standardisation and the protection of intellectual property rights (IPR)

EU measures at cross-country level are complemented by country-level interventions by member states. The following table outlines the different measures taken by the UK, France and Hungary to promote public procurement from SMEs in practice.

Table 18 Public procurement support services in EU member states

| | FRANCE | UK | HUNGARY |
|--------------|---|---|---|
| Key agencies | Oseo, Association for Public Services Procurement (APSP), Comite Richelieu | Office of Government Commerce (OGC), Public Contracts Scotland Sell2Wales | Public Procurement Council (PPC) |
| SME Services | <ul style="list-style-type: none">• Oseo provides financial assistance for SMEs bidding on large public contracts with high value Earnest Money Deposits, fees etc• APSP trains SMEs in understanding public tender requirements• Comite Richelieu provides support to SMEs in winning tenders in energy, defence and telecoms through various programmes such as SMEwatch (best practices on accessing large public tenders), SMEtool (benchmark information on requirements of large national tenders)• www.marchespublicspme.fr is a website dedicated to SMEs and public procurement | <ul style="list-style-type: none">• OGC sets guidelines for public bodies to facilitate SME access to procurement, also organises training for SMEs to understand government tender requirements• Free access to contract opportunities in Scotland and Wales that are of high relevance to SMEs• www.supply2.gov.uk is the UK's public procurement website listing relevant opportunities for SMEs• www.businesslink.gov.uk is website providing business development services to SMEs participating in public tenders | <ul style="list-style-type: none">• PPC publishes the Public Procurement Bulletin, published electronically thrice weekly |

RESULTS

In the US, during FY 2008–09, USD93.3 billion worth of federal prime contract dollars were awarded to SMEs. This is a USD10.1 billion increase from FY 2007–08. SMEs participate actively in government procurement and many federal agencies exceed the statutory targets of procurement from SMEs.

The Federal Procurement Data System (FPDS) is the government's official system for collecting, developing and disseminating procurement data and is managed by the Office of Management and Budget. SBA uses the information in the FPDS to monitor agencies' achievements against goals throughout the year. Agencies report each award over USD 25,000, including details such as amount, industry, place of performance, type of contractor and whether the contractor meets SBA's size standards. Awards under USD 25,000 are reported in summary form that does not include specific details. The agencies' prime contractors who win awards over USD 500,000 (USD1 million in the case of construction) also report on their subcontracting to small businesses by goal category. At the end of each fiscal year, the head of each agency has to review its FPDS report and, if required, submit to SBA a justification for the agency's failure to meet specific goals along with a plan to achieve the goals in the next fiscal year.

Annually, SBA prepares a report, government-wide and by agency, for the US President; this is published by the Office of Advocacy as The State of Small Business: A Report of the President. Achievements and goals are posted on SBA’s Goaling Process website.

The SBA has also recently started publishing the Small Business Procurement Scorecard to assess achievement in prime contracting to small businesses by 24 federal executive agencies. In the EU, results of SME promotion programmes are evaluated through the Eurobarometer survey as well as an annual SME Performance Review. Eurobarometer is a series of surveys periodically performed on behalf of the European Commission since 1973. It produces reports of public opinion across member states on pertinent issues relating to the European Union. Eurobarometer results are published by the Public Opinion Analysis sector of the European Commission, Directorate General Communication. Entrepreneurship and SME access to finance have been amongst the topics covered by these surveys. The 2009 Eurobarometer Survey on Entrepreneurship, for instance, is based on data from interviews conducted with more than 26,000 people in 36 member states of the EU.

The annual SME Performance Review consists of Small Business Act Fact Sheets. The Small Business Act (SBA) fact sheets are statistical information tools designed to assess the business and policy environment for SMEs in member states and their partner countries. The purpose of the fact sheets is to provide a snapshot, using quantitative data, of what the SME environment looks like in a given country and how this environment has been changing over the medium term. This is achieved by putting together a total of 88 indicators measuring a wide variety of different SME policy aspects under the ten principles of the SBA of the EU. In addition, basic figures on the size and structure of the SME sector are presented along with information on recent developments in the field of SME policy.

4.3 Infrastructure, Skill Development and Technology

Table 19 Key Examples “Infrastructure, Skill Development and Technology” Japan and South Korea

| JAPAN |
|---|
| Infrastructure |
| Planning |
| <ul style="list-style-type: none">• Organisation for Small and Medium Enterprises and Regional Innovation (SMRJ) plans interventions around five key areas: supporting SME clustering into industrial areas; upgrading existing industrial clusters; building new industrial clusters and areas; building common facilities for clusters; financing partnerships between local governments and enterprises to create SME facilities |
| Execution |
| <ul style="list-style-type: none">• SMRJ manages 58 industrial areas with common facilities for SMEs across Japan• SMRJ manages “Preferences Treatment System” to financially assist SMEs to move into these industrial areas |
| Results |
| <ul style="list-style-type: none">• No information available |

| JAPAN |
|--|
| Skill Development |
| Planning |
| <ul style="list-style-type: none">• SME Agency's Shingeneki Challenge Plan taps into skills of retired professionals for SMEs |
| Execution |
| <ul style="list-style-type: none">• Japan Small and Medium Enterprise Corporation (JASMEC) manages the Institute for Small Business Management and Technology (ISBMT) and nine SME Universities where human resource development courses are regularly offered• Costs of SMEs sending their employees for training to ISBMT can be funded by the Employment and Human Resources Development Corporation of Japan• Local governments provide financial assistance to firms for training costs• Portion of SME training costs can be a tax write-off from corporate and income tax• All prefectures and 12 major city governments offer basic training courses for SMEs as part of their human resource development programme• Programme for the Industry–Academia Partnership for Human Resource Development seeks to build partnerships across multiple universities and enterprises in a region• Support to personnel of manufacturing SMEs to develop apprenticeships in collaboration with technical schools and public agencies• SME Start-up Subsidy for Regional Revitalisation covers start-up and hiring costs for SMEs in employment generating industries in economically depressed regions |
| Results |
| <ul style="list-style-type: none">• SMRJ conducts periodic monitoring of supply of SME training in comparison with actual SME requirements |
| Technology |
| Planning |
| <ul style="list-style-type: none">• Ministry of Economy, Trade and Industry's (METI) IT Advisory Council plans interventions around four focus areas: high speed networks; eGovernance; eCommerce; eLearning |
| Execution |
| <ul style="list-style-type: none">• Low-interest loans and exemptions for SMEs to pay patent-related fees• Financial support for R&D by SMEs conditional on purchase of that technology by large firms or public enterprises• New Business Fields Project to provide venture capital funds for technology developed by partnerships between regional governments and universities or enterprises• Strategic Use of Intellectual Property for Local SMEs Programme includes matchmaking activities between SMEs and large enterprises |
| Results |
| <ul style="list-style-type: none">• Up to January 2009, 35,500 SME business plans to develop and commercialise new technology were approved for financial and tax incentives |

| SOUTH KOREA |
|--|
| Skill Development |
| Planning |
| <ul style="list-style-type: none">No information available |
| Execution |
| <ul style="list-style-type: none">Small and Medium Business Administration (SMBA) coordinates deputation of technical experts in Korean military to work in SMEs to encourage skills transferSMBA has a number of "manpower cultivation" (human resource development) programmes |
| Results |
| <ul style="list-style-type: none">No information available |
| Technology |
| Planning |
| <ul style="list-style-type: none">Online certification system for SMEs (categories: InnoBiz, Venture Company) to identify eligible support servicesPresidential Commission on SMEs sets high-level policy targets for SMEsFive-year plan by SMBA to promote globally competitive SMEs in technologyKorea Technology Finance Corporation (KOTEC) has a Technology Appraisal system in place to evaluate applications for technology development financingKorean Technology and Information Promotion Agency for Small and Medium Enterprises (TIPA) has identification criteria for SME's technology requirements |
| Execution |
| <ul style="list-style-type: none">Small and Medium Business Corporation (SBC) trains SMEs through the Small Business Training InstitutePromotion of links between SMEs and universities/research institutionsSMBA funding for "excellent technology development" as a result of joint project between SMEs and public research institutionsKorea Association of Industry Academy and Research Institute's (KAIARI) "Academic Industrial Common Technology Development" programmeKOTEC's Technology Guarantee Service (credit guarantees for technology R&D projects) |
| Results |
| <ul style="list-style-type: none">12.7% of Korean government's R&D expenditure allocated to SME promotion in 20041,473 SMEs have been selected to carry out R&D jointly with 245 universitiesIn 2009, 40 billion KRW have been spent on the "excellent technologies" projects, in which 25 universities and 17 research institutes took partBy the end of 2009, 91 large enterprises and 36 public institutions have taken part in the technology development programme, making purchases of 123.5 billion KRWNo information on evaluation tools or mechanisms available |

This section highlights Japan and South Korea as countries with best practices in infrastructure, skill development and technology for SMEs. These topics have a vast literature in general, and this study attempts to isolate only those policies and programmes that are relevant to SME promotion.

Japan has been selected as a best practice example for skill development mechanisms based on its top rank of 1 in the Global Competitiveness Index 2009. Japan is also well known for its capability to coordinate skill demand and supply between private enterprises (large and small), government agencies, research institutions and universities. Along with human resources, this section also looks at Japan's mechanisms to develop infrastructure and technological resources for SMEs.

South Korea has been picked as a best practice case for technology. In-depth secondary information was not available on infrastructure and skill building (although some information on skill building is presented here).

In Japan, skill development is managed by the Ministry of Economy, Trade and Industry (METI) and an apex Small and Medium Enterprise Agency (SMEA) in parallel. For infrastructure, the lead agencies are the Ministry of Land Infrastructure Transport and Tourism (MLT) and the Industrial Site Department⁴² within the Organisation for Small and Medium Enterprises and Regional Innovation (SMRJ) (formerly known as the Japan Regional Development Corporation). For technology, besides SMRJ, the IT Advisory Council in METI also plays a key role in setting policy goals for information technology.

METI sets SME policies and implements them through its network of prefectural and regional SME Support Centres. SMEA implements SME policies concurrently through its executive agency SMRJ, which, in turn, manages a network of branch offices, SME Universities and the Institute for Small Business Management and Technology (see Annexe II for details of the structure).

In South Korea, technology issues related to SMEs are handled by the Small and Medium Business Administration (SMBA), an apex executive agency for SMEs. SMBA implements polices set by the Presidential Commission on Small and Medium Enterprises which is a government organisation directly under the office of the President. In addition, three agencies play an important role on technology aspects: Korea Technology Finance Corporation (KOTEC), Korean Technology and Information Promotion Agency for Small and Medium Enterprises (TIPA) and the Korea Association of Industry Academy and Research Institute (KAIARI).

- PLANNING**
- In Japan, for infrastructure, the Industrial Site Department within SMRJ designs all SME infrastructure programmes around five focus areas:
- Support of SME clustering into industrial areas/districts
 - Upgrading existing industrial clusters/areas
 - Support of the establishment of common facilities within SME clusters
 - Creation of new common facilities centres
 - Provision of finance to the "third sector", which are joint partnerships between local governments and enterprises that in turn create facilities for SMEs

⁴² The Industrial Site Department was also previously the Japan Regional Development Corporation.

For skill development, METI's planning prioritises resources towards the following areas:

- Mobilising the skills of retired workers for SMEs: resulting in the Shingeneki challenge plan which in 2009 was Yen 1.97 billion
- Supporting human resource development by encouraging interaction between personnel in manufacturing sector SMEs and technical education and research institutions: resulting in programmes worth Yen 380 million in 2009
- Designing tax incentives for SME investment in personnel training and overall human resource development
- Enhancing industry-academia collaboration through networks of multiple research institutions and enterprises: resulting in initiatives such as the Programme for Industry-Academia Partnership for Human Resource Development with a 2009 budget of Yen 1.51 billion
- Promoting regional employment through subsidies and other measures: resulting in initiatives such as the SME Start-up Subsidy for Regional Revitalisation which finances start-up and hiring costs for entrepreneurs willing to set up business in regions with low employment

For technology, apart from planning by SMRJ, METI's IT Advisory Council frames Information Technology (IT) policies around four focus areas:

- Establishing high-speed telecom networks
- Strengthening eGovernance
- Strengthening eCommerce
- Strengthening eLearning

METI and other agencies periodically publish White Papers on SMEs that are in fact detailed studies of a specific business aspect concerning SMEs and are the foundation for subsequent planning. Information on an integrated plan document for SME (as in Malaysia) was, however, unavailable.

In South Korea, SMBA produced a five-year plan in 2009 to promote globally competitive SMEs in technology sectors under a “choice and concentration” strategy. The goals of this plan are:

- To increase SME R&D investment, allocate investments strategically and expand demand-oriented technology innovation infrastructure
- To focus choice and concentration on promising future growth fields, green technologies, new growth engines and knowledge services
- To strengthen custom-tailored support in terms of growth stage and innovation capability for global leader SMEs, innovative SMEs and SMEs in the initial start-up stage

To prioritise access to technology support services, SMBA makes use of a number of certification programmes (most of them available online for SMEs to self-assess) to classify firms into categories such as InnoBiz and Venture Company.

KOTEC carries out independent appraisals of technology-related R&D proposals from SMEs as a financial tool. Banks and financial institutions rely on KOTEC's appraisal to make their lending decisions towards SMEs in the technology sector. KOTEC also uses the results of the appraisal to decide if a SME is eligible for credit guarantees. Appraisal is conducted in three streams:

- Technology Value Appraisal: evaluates value that is or will be realised through relevant technology
- Technology Business Validity Appraisal: evaluates SMEs, on the basis of their finances and technological capability, that are seeking to commercialise a certain technology
- Technology Appraisal Guarantee: provides credit guarantees to technology firms, including SMEs, based on appraisal results

No information was available on the planning mechanisms of TIPA and KAIARI.

EXECUTION

Infrastructure for SMEs in Japan is provided through “industrial sites” which are similar to industrial parks with common production and other facilities for firms. SMRJ manages 58 such industrial sites across Japan and provides financial assistance packages to SMEs willing to relocate to these areas. Incentives are both financial and non-financial and grouped together in what are called Preference Treatment Systems. For skill development, the Institute for Small Business Management and Technology (ISBMT) and the SME Universities play a key role. The Japan Small and Medium Enterprise Corporation (JASMEC) manages both the institute and the universities. Training is delivered in the following streams:

- Courses for managers and administrators of SMEs
- Courses for personnel going into managerial positions in SMEs
- Courses for professional consultants who work with SMEs
- Courses on problem solving skills involving a combination of practical training, exercises, and group debates
- Courses for personnel from prefecture governments and staff from the three main commercial organisations (Chamber of Commerce and Industry, Commerce and Industry Associations, and National Federation of Small Business Associations) at the institute's Tokyo branch

Training costs for the employee is covered by the parent SME or through financial assistance from the government. Fees of the institute are subsidised by government and kept at moderate levels.

Basic training courses are also offered to SMEs by prefectural governments and 12 major city governments. Japanese SMEs are eligible for a wide variety of financial incentives from the government to participate in training and skill development. They include:

- Tax write-off of training costs borne by SMEs from corporate and income tax returns
- Financial assistance to SMEs who send their employees for training through the Employment and Human Resource Development Organisation of Japan
- Financial assistance from respective municipal government agencies

The focus of technology-related programme implementation in Japan is to innovate in networks of academia-industry and big firms-SME entities and a number of schemes are implemented in order to achieve this. Technology-sector SMEs who are considered innovative and who have developed an R&D Master Plan are given financial assistance or are exempted from patent-related charges and fees. Under the New Business Fields programme, venture capital is provided to innovative SMEs conducting R&D in high-technology sectors. Government assistance is, however, conditional on the SME providing names of business partners who will take up the technology being developed in future commercially. These partnerships are often with big firms or conglomerates or with public sector enterprises.

SMRJ also implements an innovation initiative on behalf of the Japan Patent Office called the Strategic Use of Intellectual Property for Local SMEs Programme. Through this programme, SMRJ advises SMEs on the use of intellectual property. It also publishes best practices available to the public.

The SMRJ uses matchmaking between large private or public enterprises and SMEs to further develop human resources in SMEs. As part of this process, it identifies “downstream” companies with market requirements and “upstream” SME clusters who can respond to these needs but lack technological know-how, which the bigger firm then provides in its own interest.

In South Korea, for skill development, technical experts in the Korean military are deputed by the government to work in SMEs to transfer their knowledge and skills in particular sectors. SMBA runs a number of skill-building programmes under the umbrella of “custom-tailored manpower cultivation”. In addition, the

Small and Medium Business Corporation (SBC), a non-profit organisation funded by the government, conducts training for SMEs through its network of 22 offices and the Small Business Training Institute. Training courses are offered at rates lower than those available at private sector training providers. There also exists a Small Business Human Resource Development Centre but further information on this was not available.

For technology, South Korea has a number of financial support programmes for what the government designates “excellent technology development” projects – joint R&D initiatives between SMEs and public research institutions. As in Japan, an essential precondition for such assistance is that the technology developed through the R&D exercise is bought by large enterprises, conglomerates or public organisations. Up to 750 million KRW in zero-interest funds for R&D can be given to an SME which develops a technology and is able to successfully sell it to another enterprise (public or private). This kind of incentive encouraging integration between large conglomerates and SMEs, has traditionally been available in the manufacturing sector but similar packages are now also available for the service sector through the “SME Service R&D Support Tasks”.

Finally, KOTEC plays a key role in providing credit guarantees to SMEs seeking finance for technology-related R&D projects. A potential borrower who cannot meet a bank’s lending criteria, which usually means the borrower cannot provide satisfactory collateral, is referred by the bank to KOTEC. Staff members in branches carry out independent appraisals of the loan guarantee application to assess the borrower’s creditworthiness, the use to which the loan is to be put, prospective ability to service the debt, and above all, the superiority of technology. In most cases, the banks rely on KOTEC’s appraisal for their lending decision. If the appraisal is successful, the borrower returns to the bank with a letter of guarantee issued by KOTEC and obtains the loan. Usually, the guarantee involves the payment of a guarantee fee, whose amount depends on the size of the amount being guaranteed.

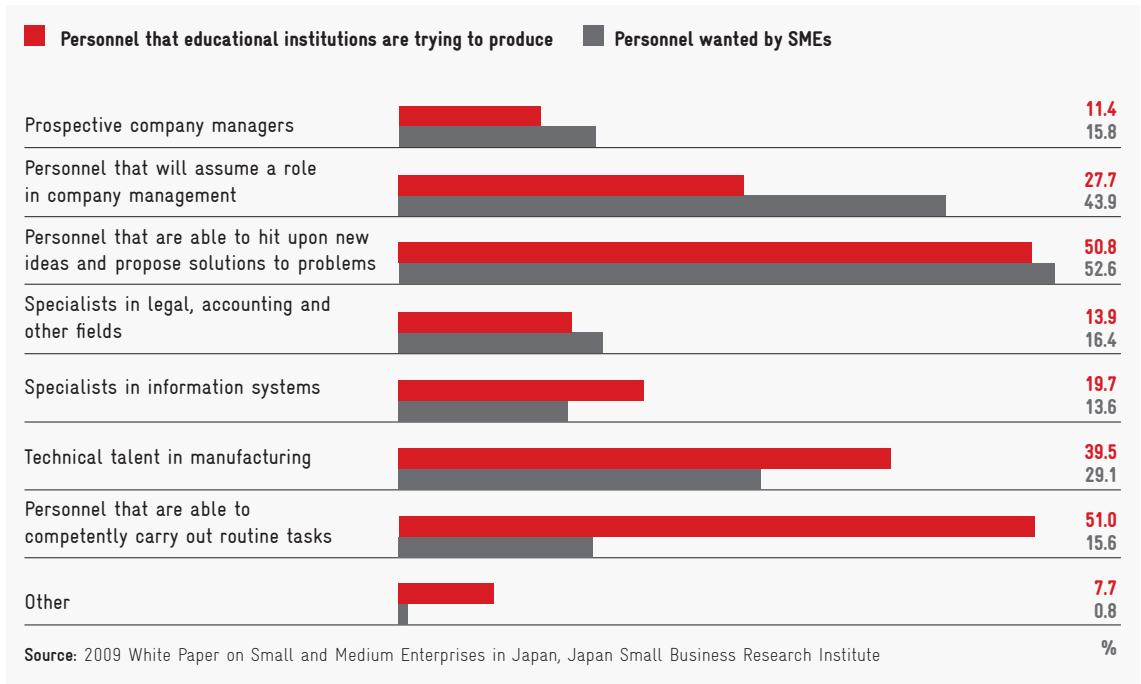
RESULTS

Consolidated results of the programmes in Japan and South Korea are either not available or not available in English. This section highlights some results and result evaluation tools used for development of infrastructure, skill development and technology for SMEs.

In Japan, a basic precondition of state assistance for technology and R&D is a business plan for the project. It is the SME’s responsibility to produce such a plan and approval of the plan triggers eligibility for a range of support services. Data available until January 2009 indicates that 35,500 SMEs had approved business plans and were eligible for financial and tax incentives.

To evaluate the effectiveness of skill development programmes, METI regularly monitors the deviation between the skills that SMEs require and the skills provided to their employees through existing training programmes. An example of the results of such a study is given below for illustration.

Figure 6 Skills supply to SMEs versus SME skills requirements



In South Korea, 12.7% of the government’s R&D expenditure was allocated to SME promotion in the year 2004. 12,620 SMEs were classified as InnoBiz in April 2008. As far as the government supported interaction between SMEs and public research institutions is concerned, 1,473 SMEs have been selected to carry out R&D jointly with 245 universities. In 2009, 40 billion KRW have been spent on the “excellent technologies” projects, in which 25 universities and 17 research institutes took part. By the end of 2009, 91 large enterprises and 36 public institutions had taken part in the technology development programme, making purchases of 123.5 billion KRW. Also in 2009, KOTEC provided 17.6 trillion KRW worth of guarantees, which is an increase of 5 trillion KRW from 2008 levels. Of this amount, 91.6% was provided to technologically innovative enterprises. By the end of 2009, data showed that KOTEC has carried out 235,000 appraisal cases since its launch.

4.4 Cross-cutting Institutional Best Practices

- Prioritised planning mechanisms with output/outcome indicators
- Implementation through various agencies measured against centralised strategic outcomes
- Central coordinating agency to coordinate multiple programmes
- Use of ICT tools to simplify access to services
- Continuous support and upgrades to one-stop service point networks

From the study of international institutions, some common practices emerge as best practices. These are:

A Planning mechanism allocates limited resources to clearly defined strategic goals, outputs and outcome indicators

Both Malaysia and the US first centrally determine a strategic plan based on quantitative data with clearly defined strategic goals, which are then broken down into measurable indicators. The planning is centralised even though the implementation may be decentralised. Where separate plans are made by individual agencies, they have to tally in the aggregate with the central master plan. Programmes and specific activities are mapped to the indicators defining strategic goals.

B Implementation results measured against strategic goals, not inputs or procedures

Implementation is measured against outputs and outcomes contained in the strategic plans, not just against inputs or procedures. Both Malaysia and the US use Key Performance Indicators to track progress against goals. In addition to the usual government accounting audits, user feedback surveys and performance evaluations are also carried out. The overall evaluation consists of both accounting and performance assessments.

C Central coordinating agency to coordinate multiple programmes

SME Corp in Malaysia and SBA in the US are examples of federal-level apex coordinating agencies. This sort of agency has the power to coordinate the provision of services by multiple agencies and departments and, in the case of the US, also report progress made by each agency towards SME promotion statutorily. The cases of South Africa and the EU, however, present examples of SME services that are successful without the presence of such an apex coordinating agency.

D Use of ICT to ease access to services

All institutions profiled in this study make extensive use of ICT solutions to facilitate SME access to government services. The strongest case is that of the US, which coordinates all marketing services through two portals, making it a true single-window interface. Malaysia has computerised the credit histories of more than 28,000 SMEs to be shared across lending institutions to speed up credit appraisal.

E Continuous support to physical network of one-stop service points for SMEs

The concept of one-stop service centres is not unique to the countries and regions profiled here. However, in every case, this physical network of service points is continuously supported with upgraded infrastructure and personnel.

5 Recommendations

This chapter describes various options for the consideration of the Expert Group with reference to the need for a coordinated and comprehensive institutional framework for maximising the results of various government initiatives and with reference to the recommendation of the Task Force to set up an independent body at the national level for the promotion and development of MSMEs. These options have been arrived at by taking into account the current reality of the Indian institutional framework and relevant international institutional arrangements and practices. Options suggested henceforth are at the following four levels:

- ▲ Overall promotional framework
- ▲ Cross-cutting recommendations
- ▲ Service-specific recommendations
- ▲ Recommendations for further study

5.1 Overall promotional framework

To set up a new, apex national-level executive agency, such as the USA's SBA, is not suggested. This study shows that countries with such apex executive agencies do not have a dedicated ministry for MSMEs. It is therefore opined that in India, MoMSME has the institutional arrangement to perform all the function of the national level executive agency like SBA or SME corp. However there are more than 13 central ministries responding to the developmental needs of MSMEs; there is, therefore, a requirement for developing a system for an overarching, coordinated and comprehensive MSME promotion framework.

It is recommended that a high powered central level supervisory council be set up to synchronise the various programmes initiatives, for SME promotion and development and minimise duplication and maximise impact. The council should ensure that overall strategic goals are not lost sight of by different agencies implementing their own programmes and reduce duplication and overlaps. It should also coordinate the roles of various ministries in the MSME sector, monitoring the effort by individual ministries and agencies towards MSME promotion and development. Relevant international examples are Malaysia's National Small Business Development Council (NSDC) and the Trade Promotion Coordinating Committee (TPCC), USA.

An existing organisation such as DC-MSME is best suited to act as the secretariat to such a high powered council. The secretariat could also play the role of a think tank for all MSME policy issues. Currently, however, instead of being able to focus on the strategic functions, it is probably hampered by its involvement in the implementation of too many direct and indirect support schemes and in the administration of a vast network of offices and autonomous bodies. In order to perform the functions similar to SBA or SME Corp. efficiently and effectively, reform processes have to be initiated within MoMSME and its institutional arrangements to streamline & improve the

- ▲ Planning process of policies & programmes,
- ▲ Organisational mandates for prioritisation in service & target group
- ▲ Coordination of the different institutions under MoMSME for effective implementation
- ▲ Integration of private sector organisations into the promotional strategy and approaches that foster market development of MSME services

National Small Business Development Council (NSDC), Malaysia

NSDC, with representation from 11 ministries and other agencies, serves as the highest policy-making body in Malaysia setting the strategic direction for government policies on SME development so as to ensure coordination and effectiveness of government programmes. It convenes bi-annually to deliberate on strategies and new policies to support SME development across all sectors, as well as to monitor and evaluate the progress and effectiveness of SME policies and programmes in promoting the growth and development of SMEs. NSDC is chaired by the Prime Minister of Malaysia, who appoints members to the council; it comprises ministers and heads of public sector agencies involved in SME development. SME Corp acts as Secretariat to the NSDC.

One of the key outputs of this council is the Annual SME Integrated Plan of Action (formerly known as the National SME Development Blueprint), which also sets out systems and procedures for the tracking and alignment of implementation of programmes undertaken by the various ministries and agencies involved in SME development. The establishment of the council has resulted in the development of common goals and targets for SME development.

See Annexe II for details

Trade Promotion Coordination Committee (TPCC), USA

TPCC is a US federal government inter-agency task force that provides a unifying framework to coordinate the export promotion and export financing activities of the US government and to develop a government-wide strategic plan for carrying out such programmes. It is made up of 20 agencies; the following seven agencies form its core: Department of Commerce (DOC), Export-Import Bank, Overseas Private Investment Corporation (OPIC), US Trade and Development Agency (USTDA), Small Business Administration (SBA), Department of State and Department of Agriculture (USDA). This committee is chaired by the Secretary of Commerce and the Under Secretary of Commerce for International Trade.

The main function of TPCC is to coordinate the development of the trade promotion policies and programmes of the US government, prevent unnecessary duplication, establish sets of priorities, propose means of developing cooperation between state and federal efforts and report on the implementation of the strategic plan.

5.2 Cross-cutting Recommendations

Certain common themes emerge while analysing the MSME-specific institutional framework and specific service areas. These are overarching cross-cutting issues, such as the lack of prioritisation in services and target groups, lack of coherence in planning, over dependence on public institutions, limited outreach and the adequacy and impact of support programmes. To achieve a coordinated and comprehensive MSME promotional and developmental framework, there is an urgent need to not just look beyond public institutions but also to focus on the following:

- PLANNING
- ▲ Prioritise support services based on defined criteria such as sectors, export-oriented trades, or size (micro/small/medium). Without explicit prioritisation of services institutions would find it difficult to achieve greater efficiencies in their programmes and services for MSMEs.
 - ▲ Rationalise and reduce the large number of support schemes with small budget outlays to a few focused and prioritised schemes (selected by target group, subsector, theme or a mix of more than one of these criteria).

Plan support services with market development aspects wherever applicable. This basically means that the long-term focus should be on ensuring the systematic and large-scale development of private sector supplier capacities on one hand and the demand for such services on the other.

As a part of rationalisation in role and functions, DC-MSME could be the agency within MoMSME with the overall responsibility for planning and coordinating all MSME development activities to achieve the coherent and targeted measuring of promotional measures. For this to happen, DC-MSME should to strengthen its knowledge management systems and put greater focus on creating customised, prioritised research for the benefit of other public and private agencies. It also has to move away from direct implementation of various support schemes and focus on delivery through the public and private sectors and on monitoring and impact evaluation.

- EXECUTION
- Outsource programme implementation through an open contracting process, giving a fair chance to private service providers, especially those services that are customer-facing. Support institutions should play a facilitatory role rather than trying to implement every possible SME service themselves.
- Focus on the capacity building of MSME associations for closer integration into the implementation of support services and maximising outreach. For example, NSIC can replicate the “raw material distribution model” by building the capacity of business associations. A franchisee model with these associations can help substantially in enhancing outreach and covering underserved areas.

- RESULTS
- Greater focus on monitoring the impact of support services on the beneficiaries, going beyond just adding up the number of recipients. Funds for monitoring the impact of any support schemes should be planned as an integral component at the design stage.

5.3 Service-specific Recommendations

To address the key problems highlighted in the analysis of SME services in the areas of credit, marketing and skill development in India, this study suggests the following options along with the relevant international institutions and their best practices:

5.3.1 CREDIT

Table 20 Options for credit delivery mechanisms based on international best practices

| OPTIONS | INTERNATIONAL INSTITUTIONS | ADOPTABLE APPROACHES AND PRACTICES |
|--|--|---|
| <ul style="list-style-type: none">• Adoption of alternate mode of credit delivery by banks• Develop capacity of MFIs to lend to micro enterprises in the “missing middle” segment• Focus on enhancing financial literacy amongst MSMEs• Improve information asymmetry through further strengthening of Credit Information Bureau of India Ltd.’s database of SME credit history | • SME Corp (Malaysia) | <ul style="list-style-type: none">• Runs 1-InnoCERT (1-Innovation Certification for Enterprise Rating and Transformation) innovation standard. Firms in high technology sector choosing to obtain this standard are put on fast track access to finance and business advisory services.• Offers the Small Debt Resolution Scheme through a network of banks and Development Finance Institutions (DFIs), providing debt restructuring facilities to SMEs unable to service their existing debt obligations• Bound by client charters that specify service levels. For example, at SME Corp, all applications for matching grants are processed within 30 working days upon submission of complete information |
| | • South Africa Micro Finance Apex Fund | <ul style="list-style-type: none">• Has a clear target population for its services, leading to the inclusion of the “missing middle” segment• Relies on existing traditional financing intermediates in order to target the informal sector |
| | • Bank Negara Malaysia | <ul style="list-style-type: none">• Its Central Credit Reference Information System (CCRIS), containing credit histories of SMEs, is used by the SME Credit Bureau, a centralised provider of credit information and ratings on SMEs in Malaysia; bank acts as single source for lenders to retrieve credit information and ratings on SMEs |

5.3.2 MARKETING

Table 21 Options for “Marketing” based on international best practices

| OPTIONS | INTERNATIONAL INSTITUTIONS | ADOPTABLE APPROACHES AND PRACTICES |
|--|---|--|
| <ul style="list-style-type: none">• Implement Public Procurement policy for MSMEs• Reduce entry barrier for MSMEs by breaking down public contracts into smaller lots• Provide specifications in the form of performance and functional requirements rather than detailed technical specifications• Educate MSMEs on understanding government procurement better• Offer single-window access for all international trade related services through coordination and networking with public (e.g. Export Promotion Council) and private institutions | • Small Business Administration (USA) | <ul style="list-style-type: none">• Has a Goaling Programme which sets procurement targets for federal executive agencies for SMEs (23% prime contracts for small businesses is the principal target)• Procurement targets set and monitored on an annual basis by using data from the Federal Procurement Data System (FPDS)• Publishes the Small Business Procurement Scorecard to assess achievement in prime contracting to small businesses by 24 federal executive agencies• All export services available on Export.gov; all import services and services for foreign investors in the US available on BuyUSA.gov• SBA and USCS have specialist offices and staff to help SMEs with export promotion and to assist foreign buyers to connect with US SMEs |
| | • European Union and its Enterprise Europe Network (EU) | <ul style="list-style-type: none">• Code of Conduct provides precise guidelines on how to help SMEs to access public procurements plus a number of best practices for each of the challenges that SMEs encounter• Enterprise Europe Network is an umbrella organisation for export promotion for all EU member states that acts as a central one-stop shop that works in collaboration with 567 partner organisations to facilitate cooperation between SMEs, universities for R&D and product design• Provides a database of information related to accessing different overseas markets and publishes a guidebook specifically for SMEs that is available in 23 different languages |

5.3.3 SKILL DEVELOPMENT

Table 22 Options for “Skill Development” based on international best practices

| OPTIONS | INTERNATIONAL INSTITUTIONS | ADOPTABLE APPROACHES AND PRACTICES |
|--|---|---|
| <ul style="list-style-type: none">• Target skill development at lower levels of skill pyramid to meet the huge gap in demand and supply• Build the capacity of private sector intermediaries and actively involve them in delivery mechanism• Ensure the quality in service delivery• Formulate systems and mechanisms for updated content formation, delivery and assessment | <ul style="list-style-type: none">• Ministry of Economy, Trade and Industry (METI), Japan | <ul style="list-style-type: none">• Mobilises skills of retired workers for SMEs: resulted in the Shingeneki challenge plan which in 2009 was Yen 1.97 billion• Supports human resource development by encouraging interaction between personnel in manufacturing sector SMEs and technical education and research institutions: resulted in programmes worth Yen 380 million in 2009• Portion of SME investment in personnel training and overall human resource development can be a tax write off from corporate and income tax• Enhances industry-academia collaborations through networks of multiple research institutions and enterprises: resulted in initiatives such as the Programme for Industry-Academia Partnership for Human Resource Development with a 2009 budget of Yen 1.51 billion• Promotes regional employment through subsidies and other measures: resulted in initiatives such as the SME Start-up Subsidy for Regional Revitalisation which finances start-up and hiring costs for entrepreneurs willing to set up business in regions with low employment |
| | <ul style="list-style-type: none">• Organisation for Small and Medium Enterprises and Regional Innovation (SMRJ), Japan | <ul style="list-style-type: none">• Conducts periodic monitoring of supply of SME training in comparison with actual SME requirement• Manages SME universities and Institute for Small Business Management and Technology for meeting the skill development need of SMEs |

5.4 Recommendations for further study

In addition to the above options, there are certain issues related to intra-institutional aspects that have been highlighted below. However, these would need further detailed analysis as they have been derived from secondary sources of information and limited discussion and interaction with key stakeholders without an in-depth analysis of respective institutions.

Administrative reforms within DC-MSME

- MSME Development Institutes should be restructured. The reduced administrative workload would be an immediate advantage for the DC-MSME office.
- For achieving synergy between technical services, skill development and administrative benefits, all tool rooms and training and testing centres should be brought under one 'vertical'. The NSIC technical services centre could also be brought under this new vertical.

National Small Industries Corporation (NSIC)

One of the recommendations of the Task Force report is related to the strengthening of NSIC as an apex organisation for the coordination of marketing support programmes in the country. However, NSIC is currently involved with several service areas that are not directly related to marketing assistance. To become an apex body for marketing support, some suggested options for NSIC are:

- Strategically move out from those activities (such as technology and training) that are not directly related to marketing assistance activities. The NSIC technical services centre can be hived off and integrated with the technical corporate vertical mentioned above. This is to improve monitoring mechanisms and functional specialisation.
- Marketing assistance has a wide range of sub-functions and NSIC is trying to address all of them. Providing reliable, useful and demand-driven services in a few select areas is a challenging enough task. NSIC would be more effective if it focused on areas related to marketing as its core function. Public procurement and raw material procurement are amongst the activities that need greater focus. For other specialised functions, liaising with private service providers should be adopted; NSIC has already tried this approach in the field of credit.

Small Industries Development Bank of India (SIDBI)

The economic environment has changed dramatically since SIDBI was set up as a refinancing institution for MSME. SIDBI currently has operations in direct financing of MSME as well. There is a need to develop a road map for the banking system, SIDBI's role within it and the mechanisms of providing credit to MSME with particular reference to:

- a bringing MSME finance to the same priority level and thereby similarly favourable terms of accessing international lines of credit as that of infrastructure, health and education
- b increasing the fund for credit guarantees for MSME
- c use of alternative financial products and delivery systems such as branchless banking techniques and information technology.

District Industries Centre

All studies and reports point to the fact that District Industries Centres have lost their relevance and need restructuring and strengthening. A recent study commissioned by GIZ and carried out by Entrepreneurship

Development Institute (EDI) to understand and analyse the functioning of DICs in the states of Gujarat and Madhya Pradesh has similar findings.

Conclusion

A number of recurring key success factors of effective institutional frameworks in other countries reveal cross-cutting issues that suggest a high-level strategic and systemic rethink of existing structures and mechanisms is needed in India. These issues relate mainly to the planning of policies and mandates and their review through appropriate performance and impact monitoring. Cross-cutting issues also point to the areas of leverage for overall institutional competitiveness, which are necessary prerequisites for effectively addressing functional and organisational deficiencies.

Further, it is important to appreciate the importance of strengthening the integration of private sector organisations and associations into the service delivery process of MSMEs. In many areas of promotion to MSMEs it would be advisable to first assess the capacity of the private sector to respond to and meet the demand before engaging in service delivery through government agencies. When concentrating only on core issues to which private sector organisations cannot respond, institutions could focus on developing capabilities for specific core activities, increasing quality and efficiency within their area of expertise.

The current institutional mechanism, policies and programmes in India have evolved over a period of time as a result of considerable thought and a planning process, and a mere increase in the number of institutions would not by itself guarantee successful delivery and enhanced outreach of promotional measures and services to MSMEs. The existing arrangement has both advantages and disadvantages. Issues such as coordination, cooperation, coherence and transparency of information require certain management standards, are difficult to manage and are the cause of confusion amongst the MSME sector. At the same time, however, institutional specialisations enable the use of comparative advantages (sector-specific know-how, market information, technical know-how, proximity to the customer etc.), which, on the other hand, may be difficult to achieve through a central institutional approach considering India’s geographical size, the characteristics of MSMEs (predominantly unorganised) and the huge number of micro and small enterprises. Therefore, what is needed is to develop an improved approach and a balanced mechanism combining the advantages of both the centralised and decentralised approach that is specific to India.

Annexe 1 Domestic Institutions

Office of the DC-MSME

MANDATE

“Imparting greater vitality and growth impetus to the Micro, Small and Medium Enterprises (MSME) in terms of output, employment and exports and instilling a competitive culture based on heightened technology awareness”.

ORGANISATION BACKGROUND

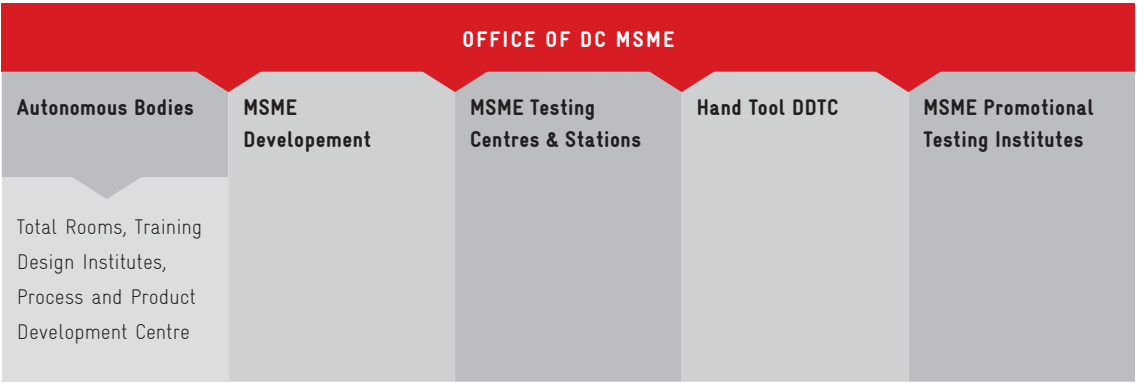
Set up in 1954, the Office of the Development Commissioner for Micro, Small and Medium Enterprises (DC-MSME) has evolved over the years into an agency for advocacy, hand-holding and facilitation for the small industries sector. Since 2001, it has been working as an attached office to the Ministry of Micro, Small and Medium Enterprises (MoMSME). According to the Micro, Small and Medium Enterprises Development Act 2006, the DC-MSME has been mandated to function as the apex/nodal development agency under MoMSME and provide links between the ministry and its departments at policy level and field-level agencies.

The DC-MSME implements a large number of support schemes on behalf of MoMSME and provides a wide spectrum of services to the micro, small and medium industries sector. These include facilities for testing, tool making, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. It also provides economic information services and advises the government in policy formulation for the promotion and development of Small Scale Industries (SSIs).

STRUCTURE AND RESOURCES

To implement programmes (schemes) and to provide various support services to SMEs, the DC-MSME has over 70 offices and 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centres as shown below:

Figure 7 Organisation structure of DC-MSME



In its Plan Outlay for FY 2010–11, DC-MSME had an estimated expenditure (Plan and Non-Plan {mostly recurring operating expenses}) of INR 7,930 million

The following table provides a snapshot of the physical network of offices managed by DC-MSME:

Table 23 Outreach network of DC-MSME

| AGENCY | OUTREACH | KEY SERVICES | NOTES |
|---|---|---|--|
| MSME Development Institutes | 30 main institutes & 28 branch institutes | <ul style="list-style-type: none">• Entrepreneurship, Management and Skill Development Programmes• Assistance/consultancy to prospective and existing enterprises• Project profile preparation• Surveys and research• Common facilities services in workshops | |
| MSME Tool Rooms | 10 | <ul style="list-style-type: none">• Tooling design, moulds, jigs, fixtures, components• Training and consultancy in the area of tool and die making | <ul style="list-style-type: none">• Set up under Indo-German and Indo-Danish collaboration |
| MSME Technology Development Centres | 7 | <ul style="list-style-type: none">• Development of human resources• Training as per industry needs• Technical support | Product specific centres |
| MSME testing centres & testing stations | 4 centres 7 stations | <ul style="list-style-type: none">• Testing and calibration facilities for raw materials and semi-finished and finished products | |
| MSME training institutes | 2 | <ul style="list-style-type: none">• Training for manpower in footwear industry• Design development• Technical support services | Footwear specific |
| NSIC Technical Centre | 8 | <ul style="list-style-type: none">• Training for manpower• Technical support services | Different centre has different specializations keeping local industry in mind |
| Training cum Incubation centre | 46 | <ul style="list-style-type: none">• Training for manpower | |

National Small Industries Corporation (NSIC)

MANDATE

“Promoting, aiding and fostering the growth of small scale industries and industry related small scale services/business enterprises in the country.”

ORGANISATION BACKGROUND

Established in 1955, the National Small Industries Corporation (NSIC) is a government-owned company whose main functions are:

- ▲ To supply machinery on hire-purchase basis
- ▲ To assist SSIs to get a greater share of government purchases
- ▲ To provide marketing assistance
- ▲ Prototype development and technology-related training services

Over a period of five decades, there have been changes in the services offered by NSIC. Changes in the economy, decline in government funding and the expectation of being financially self-sufficient have meant that NISC has now discontinued the supply of machinery on hire-purchase basis and instead focuses mainly on raw material procurement for SMEs, marketing and technology-related services. Currently, the main service areas are:

- ▲ Marketing: consortia and tender marketing, single-point registration schemes for government purchase, raw material supply, export of products and projects, infomediary services, exhibition and trade fairs, buyer-seller meets
- ▲ Technology: technological services and technical training through seven Technical Services Centres, business incubation services
- ▲ Other support activities: providing infrastructure facilities such as software technology parks, office space to small enterprises for revenue generation
- ▲ As an implementing agency for specific schemes of MoMSME: performance and credit-rating schemes.

Structure and Resources

NSIC has a limited share (around 2%) of the MoMSME budget. Raw material facilitation services accounts for almost 90% of its total turnover.

SME Services

NSIC activities are targeted at the overall SME sector without any special focus on firms of a certain size or a specific industrial sector or region (see figure below). One major stream of action at NSIC is the support of SMEs in government procurement under the Government Stores Purchase Programme. NSIC acts as a nodal point for the collection of information on government tenders, which it disseminates to the SME units that have registered under the programme. Further, SMEs can choose to operate their bids on the tenders through NSIC, with it acting either as a representative of one unit or of a consortium of vendors. Most importantly, NSIC also executes the payments to the vendor units in case they are not settled within a certain time by the relevant government agency and undertakes the follow-up at its own cost.

Another important feature of NSIC's marketing support is the provision of requisite raw materials at reasonable prices and in manageable quantities. For this purpose, NSIC enters into Memorandums of Understanding and large-scale contracts with raw materials suppliers on behalf of several SME buyers, thus securing bulk purchase prices and ensuring a reliable supply for the buying units. In addition, it supports SMEs' raw material purchases by providing financial assistance against bank guarantees as well as practical help with purchase procedures and documentation. In the case of the purchase of imported goods, NSIC also issues letters of credit. In terms of scope, this feature takes up the largest share of NSIC's operational incomes. From its total sales incomes in FY 2008-09, sales from raw material distribution took up 88.96%.

Furthermore, NSIC organises trade fairs, exhibitions and buyer-seller meets, aimed at improving access to both domestic and international markets. The participation of SME units at these events and at similar activities held by other institutions and abroad is facilitated by subsidising the costs of exhibition stalls, publicity measures, air fares etc. under the Marketing Assistance and the International Cooperation Scheme.

Figure 8 Key programmes of NSIC

| NATIONAL SMALL INDUSTRIES CORPORATION | | | | |
|---------------------------------------|---|--|----------------------------------|--|
| Schemes | Government Store Purchase Programme | Marketing Assistance Scheme | International Cooperation Scheme | Raw Material Procurement |
| Components | Collection of public tender information | Organisation of trade fairs and exhibitions | | Coordination of larger scale buyer groups |
| | Participation as bidder on behalf of SME units/vendor consortia | Facilitation of participation through cost subsidies | | Settlement of purchase contracts |
| | Provision of payment security for vendor units | Organisation of buyer-seller-meets | | |
| Issues addressed | Government procurement | Domestic and international market access | | Market access through enhanced competitiveness |

Khadi Village Industries Commission (KVIC)

MANDATE

“The main objectives of KVIC include: the social objective of providing employment in rural areas; the economic objective of producing saleable articles; and the wider objective of creating self-reliance amongst people and building up a strong rural community spirit”.

ORGANISATION BACKGROUND

Set up in 1957, KVIC is engaged in promoting and developing khadi and village industries (KVIs) in order to provide employment opportunities in rural areas, thereby strengthening the rural economy. It is the apex organisation in the decentralised/unorganised traditional sector for generating sustainable non-farm employment opportunities in rural areas at a low per capita investment. KVIC’s initiatives for the KVI subsector are: Raw material procurement, marketing, financial assistance in the form of rebates, and interest rate subsidies Village industries programmes, including the Rural Industry Service Centre (which supports the upgrading of production capacity, market promotion, and skills development) and the Rural Employment Generation Programme (which provides margin money subsidy for setting up an enterprise in rural areas with a population less than 20,000)

Programmes for KVIs, including the Scheme of Funding for Regeneration of Traditional Industries, which supports integrated development of traditional KVIs, including leather and pottery; research and development; training; and the Product Development Design Intervention and Packaging Scheme, which aims at improving quality and developing new product lines

STRUCTURE AND RESOURCES

KVIC has its head office at Mumbai, 6 Zonal Offices and 36 State/Divisional Offices. Programmes are implemented through a network of 33 State/Union Territory (UTs) Khadi and Village Industries Boards (KVIBs); 5,000 registered institutions; 30,129 cooperative societies and banks/financial institutions. In terms of budget allocation, it has the lion’s share (more than 60%) of the overall MoMSME budget.

SME SERVICES

KVIC has a very specific mandate as far as marketing assistance to SMEs is concerned, being exclusively responsible for the promotion of KVI products. This promotion is undertaken through various measures, the most important ones being the maintenance of sales and distribution channels through particular KVI sales outlets and the supply of KVI products to government agencies.

In order to facilitate the distribution of KVI products, KVIC has more than 7,000 sales centres run by Khadi institutions and 12 departmental outlets (Khadi Gramodyog Bhavans) that only display and sell KVI products (see figure below). Artisans and workers in KVIs get access to these distribution channels by being attached to a particular Khadi institution.

Additionally, through its state/divisional offices, KVIC organises exhibitions at national and state level, particularly displaying KVI products and thus trying to reach markets and market segments in which awareness of the KVI product offer is not high.

To expand the operational scale of KVI units to international markets, KVIC also implements an Export Incentive Scheme, through which participation in international trade fairs is subsidised and an incentive of 5% of the export value is paid to the registered KVI unit that is exporting.

With reference to government procurement, KVIC itself enters into specific contracts with government agencies and the Indian Railways, arranging the supply of cloth and textile products produced by KVI units to these buyers. As far as raw material supply is concerned, KVIC provides Khadi weavers with the required yarn, which is produced in its own sliver plants or procured from spinning units.

Figure 9 Key programmes of KVIC

| KHADI AND VILLAGE INDUSTRIES COMMISSION | | | | |
|---|--|---|--|----------------------------------|
| Schemes | Sales centres/outlets | Raw Material Procurement | Export Incentive Scheme | Government procurement |
| Components | Over 7000 sales centres all over the country/ 12 departmental stores | Provision of yarn from silver plants/spinning units | Facilitation of participation in trade fairs | Settlement of purchase contracts |
| | Display and sale of KVI products | | Payment of export incentives | |
| | Product Exhibitions | | | |
| Issues addressed | Access to domestic markets | Market access through enhanced competitiveness | Access to international markets | Government Procurement |

Small Industries Development Bank of India (SIDBI)

MANDATE

“To empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development”.

ORGANIZATION BACKGROUND

SIDBI was established on 2 April 1990 through an act of parliament with refinancing as its sole business. The charter that established it, the Small Industries Development Bank of India Act, envisaged SIDBI as “the principal financial institution for the promotion, financing and development of industry in the small-scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small-scale sector and for matters connected therewith or incidental thereto”.

SIDBI provides refinance to banks, State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) for onward lending to MSMEs. The change in India’s economic environment since the inception of SIDBI has enabled banks (the main source of credit to SMEs) to raise funds from other sources at attractive rates; as a result, SIDBI has diversified its portfolio and it now also offers direct finance to SMEs. This is also aimed at complementing the efforts of banks. At present, nearly 25% of its portfolio consists of direct credit to MSMEs, while the balance consists of refinance.

STRUCTURE AND RESOURCES

SIDBI’s portfolio size is approximately INR 400 billion. Its Net Worth stands at INR 53.42 billion with Non-Performing Assets of 0.08%. It has a network of 6 zonal offices and 103 branches. SIDBI provides direct finance to SMEs through its own branch network as well as indirect finance to other banks, micro-finance institutions and SFCs.

SME SERVICES

SIDBI has adopted the following approaches in order to address key challenges, improve the financial system for MSMEs and create an enabling environment for lending to MSME:

Table 24 SIDBI’s approach to current issues

| APPROACH | COMPONENTS | KEY ISSUES |
|--|--|----------------------------|
| Adopted different modes of financing in addition to traditional finance | <ul style="list-style-type: none">• Direct and indirect finance including through Micro-Finance Institutions• First to focus on certain niche areas e.g. Energy Efficiency Financing (cleaner production and energy saving instruments/machinery)• Micro Enterprise Lending Schemes• MSME receivable finance | Adequate and Timely Credit |
| Uses specialised systems and tools for faster credit disbursal decisions | <ul style="list-style-type: none">• Credit Appraisal and Rating Tool (CART), an eTool for rating loans of up to INR 20 million, developed and made freely available to all banks and financial institutions• Risk Assessment Model for rating loans above INR 20 million• Green Rating for MSMEs• NTREES, an electronic platform for discounting of trade receivables | Timely credit |

| | | |
|---|---|---|
| Has created specialised associate institutions to meet specific needs | <ul style="list-style-type: none">• SIDBI Venture Capital Limited (SVCL) to meet venture funds need of SMEs | Adequate credit through other sources like venture and risk funds |
| | <ul style="list-style-type: none">• Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in association with MoMSME to facilitate collateral-free loans | Collateral Requirement |
| | <ul style="list-style-type: none">• SME Rating Agencies | High risk perception arising from information asymmetry |
| Promotion and Development | <ul style="list-style-type: none">• Technology upgradation and information through technology banks; nodal agencies for government schemes, enterprise promotion and strengthening; innovation and incubation support; focus on underserved and North-Eastern Regions | Overall enabling environment for profitable lending to SMEs |
| Policy Advocacy | <ul style="list-style-type: none">• Member of all important policy making bodies and committees; taken the lead in advocating the need of factoring, SME exchange, corporatisation | |

SIDBI has also established agencies to cater to specific financing needs of SMEs:

SIDBI Venture Capital Limited (SVCL): established in 1999, SVCL manages a venture capital fund in order to cater to knowledge-based and high growth potential enterprises in the MSME sector through its two close-ended funds. The cumulative sanctions under these funds have been approximately INR 5,510 million for only about 56 companies. One of the reasons cited by SVCL officials is the difficulty of raising funds due to the fact that venture funds are not covered under the priority sector lending norm.

SME Rating Agency of India (SMERA): established in 2005, this SME-dedicated third-party rating agency aims to provide comprehensive, transparent and reliable ratings and risk profiling to reduce the high risk perception. Although it occupies half of the market share for ratings, its services have been utilised by only 6,000 enterprises in the last five years, indicating the need and scope of increased adoption of ratings to solve the availability of adequate and timely credit. Most banks undertake their own risk and credit rating before sanctioning loans.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE): set up in 2000 in association with MoMSME to provide credit guarantee support to banks and lending institutions for providing collateral-free credit to micro and small enterprises. The present corpus of the trust is INR 19.31 billion, wherein the share of the government and SIDBI is in the ratio of 4:1. As on 30 June 2010, there are 115 member lending institutions linked to CGTMSE, among which are 27 public sector banks, 17 private sector banks, 8 financial institutions and 2 foreign banks. The credit guarantee scheme, though slow in its early years, has picked up pace in the last two years. As of June 2010, the number of loan proposals and credit facility stands at 372,403 and INR 148.01 billion respectively. This is an important mechanism to counter the banks’ insistence on collateral security due to the high risk perception and it is slowly being accepted by banks and member lending institutions. However, there are many gap areas that need to be addressed. These gap areas are not discussed here as the Reserve Bank of India had set up a working group to review the performance of credit guarantee schemes and published a report on them in March 2010.

Annexe 2 Country Overview—Best Practice Institutions

USA

Figure 10 INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT



ORGANISATION BACKGROUND

US Small Business Administration

Since its founding on 30 July 1953, the US Small Business Administration (SBA) has delivered loans, loan guarantees, contracts, counselling sessions and other forms of assistance to small businesses.

The US Congress created SBA via the Small Business Act of 1953 . Its function was to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns". The charter also stipulated that SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property. SBA has grown in terms of total assistance provided and its array of programmes is tailored to encourage small enterprises in all areas. SBA's programmes now include financial and federal contract procurement assistance, management assistance, and specialised outreach to women, minorities and armed forces veterans. SBA also provides loans to victims of natural disasters and specialised advice and assistance in international trade.

US Commercial Service

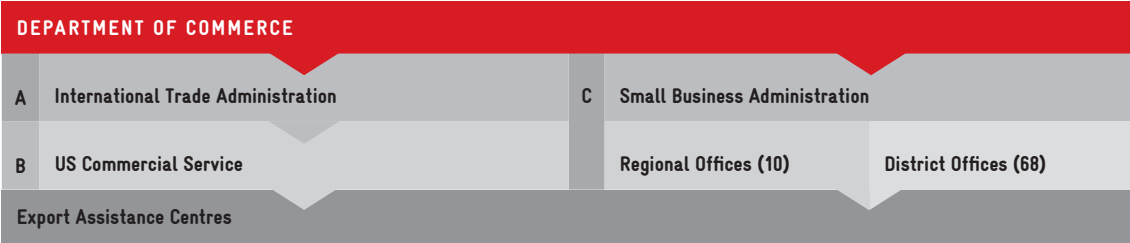
The US Commercial Service (USCS) is the trade promotion arm of the US Department of Commerce's International Trade Administration. Its aim is to promote the trade interests of US SMEs when doing business abroad and to facilitate linkages between international firms who come to the US in search of business partnerships. USCS services include market intelligence, trade counselling, business matchmaking and trade advocacy.

Key Institutional Relationships

SBA acts as a coordinating hub for all agencies and departments who provide services to SMEs. USCS reports to the International Trade Administration (ITA), a division within the federal government's Department of Commerce (see figure below). Both SBA and USCS coordinate services with each other and use a common network of Export Assistance Centres. Service coordination and single-window service provision to SMEs is through two online portals, Export.gov (export promotion services) and BuyUSA.gov (for foreign firms searching for business partnerships with US SMEs).

Figure 1 describes the links between SBA and USCS and the reporting structure to the Department of Commerce. SBA and USCS jointly utilise a network of Export Assistance Centres in the US and abroad. In addition, SBA has its own office network of ten Regional Offices and 68 District Offices.

Figure 11 Institutional link between US SBA and USCS



The International Trade Administration (ITA) of the Department of Commerce houses four divisions:

- 1 Manufacturing and Services: to influence industry-specific trade policy in foreign governments.
- 2 Market Access and Compliance: to lobby for the removal of market entry barriers and improve trade opportunities for US firms.
- 3 Import Administration: to enforce US trade laws to prevent dumping of cheap imports in the US market and to protect US business interests.
- 4 US Commercial Service: to promote US exports, particularly by SMEs, and to provide commercial diplomacy support for US business interests around the world.

Figure 12 Organisation structure of International Trade Administration



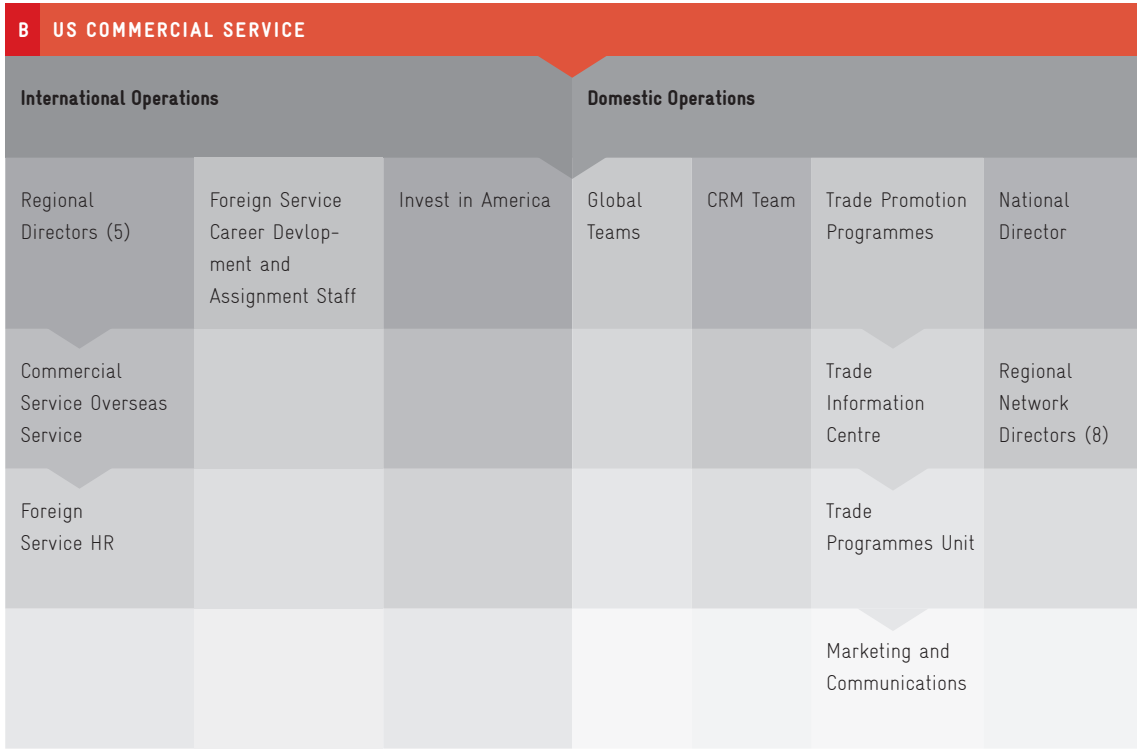
USCS specialises in trade promotion for SMEs, unlike the other divisions of the ITA which look after the interests of US business in general. Its operations are divided into two categories: international and domestic. US and Foreign Commercial Services (US&FCS) provides US companies with reliable advice on the range of public and private assistance available and knowledgeably supports all other federal trade promotion services. Specifically, US&FCS assists exporters by providing information, referral and follow-up services through an integrated global field network. US&FCS includes the Trade Promotion Coordinating Committee (TPCC) secretariat. Moreover, US&FCS also leads interagency advocacy efforts for major overseas projects, including early involvement in project development and assistance to resolve post-export transaction problems.

ORGANISATION STRUCTURE

US Commercial Service

USCS divides its activities into international and domestic operations. For overseas trade promotion, five Regional Directors supervise a cadre of Overseas Commercial Service officers.

Figure 13 Organisation structure of US Commercial Service



US Small Business Administration

SBA has a complex organisational structure which divides itself into the three broad functional areas of SME services, internal management functions and other statutory functions. Trade promotion is looked after by the Office of International Trade. The Office of Government Procurement manages aspects related to federal agencies procuring from SMEs through the Goaling Programme (see Figures 14, 15 and 16 below for details).

Figure 14 Organisation structure of US SBA SME Services

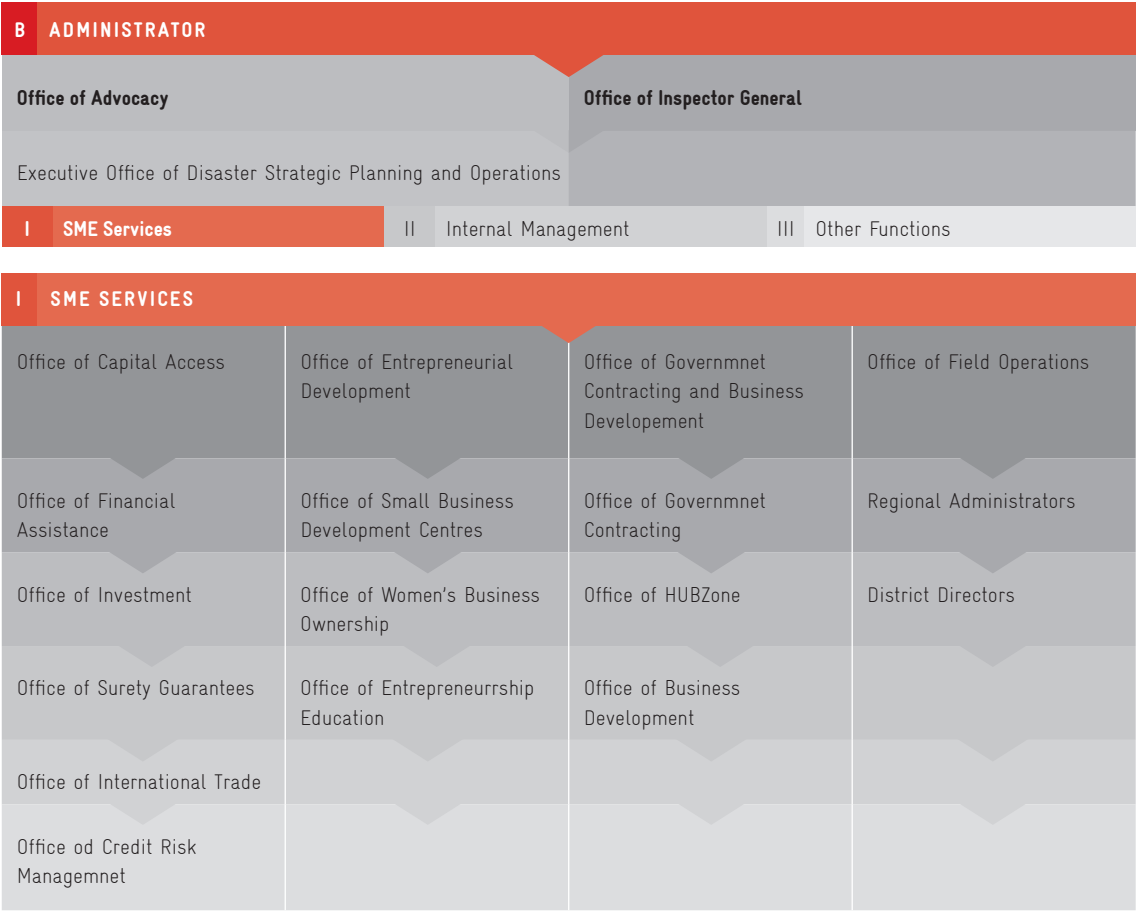


Figure 15 Organisation structure of US SBA Internal Management

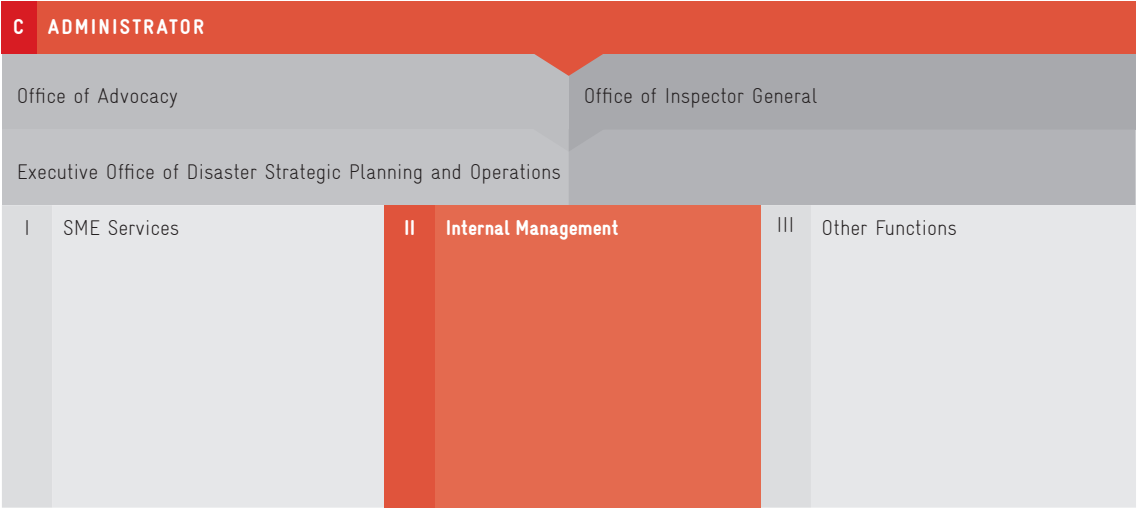




Figure 16 Organisation structure of US SBA Other Functions



ORGANISATION RESOURCES

SBA had a budget of USD12.3 billion in 2009. USCS, being a part of ITA, has a smaller budget of USD 260.34 million in 2010 and USD 534.26 million in 2011.⁴⁵

SBA has regional and district offices to execute its programmes. USCS has trade assistance offices in domestic and international locations. Both USCS and SBA also share a network of Export Assistance Centres in the US (all 50 states) and abroad (in 123 countries) and in five major development banks (including the World Bank).

SME SERVICES

Within SBA, the Office of Government Contracting and Business Development provides assistance to SMEs in obtaining federal procurement opportunities through the Goaling Programme. This office also sets the size standards that determine when a business is considered a SME.

To ensure that small businesses get their fair share of federal government purchases, statutory goals are established for federal executive agencies. At present, they are:⁴⁶

- 23% prime contracts for SMEs
- 5% of prime and subcontracts for women-owned SMEs
- 3% of prime contracts for HUBZone (US government programme for SMEs in disadvantaged locations SMEs
- 3% of prime and subcontracts for service-disabled veteran-owned SMEs

Each federal agency must also set its own annual goal in line with the above statutory targets. SBA negotiates with agencies to establish individual agency goals that in the aggregate constitute government-wide goals.

The Federal Procurement Data System (FPDS) is the government's official system for collecting, developing and disseminating procurement data. It is managed by the Office of Management and Budget. SBA uses the information in the FPDS to monitor agencies' achievements against goals throughout the year. Agencies report each award over USD 25,000, including details such as amount, industry, place of performance, type of contractor and whether the contractor meets SBA's size standards. Awards under USD 25,000 are reported in summary form that does not include specific details. The agencies' prime contractors who win awards over USD 500,000 (USD1 million in the case of construction) also report on their subcontracting to small business by category of goals. At the end of each fiscal year, the head of each agency is required to review its FPDS report and, if required, submit to SBA a justification for the agency's failure to meet specific goals, along with a plan to achieve the goals in the next fiscal year.

Annually, SBA prepares a report for the US President, government-wide and by agency, which is published by the Office of Advocacy as The State of Small Business: A Report of the President. Achievements and goals are posted on SBA's Goaling Process Website.

Both SBA and USCS offer a range of export promotion services to American SMEs, complementing each other in certain service areas.

⁴⁵ Data from annual reports | ⁴⁶ Publicly available information on SBA website

Table 25 Marketing services offered by US-SBA and USCS

| US SMALL BUSINESS ADMINISTRATION (SBA) | US COMMERCIAL SERVICE (USCS) |
|---|---|
| Finance | |
| <ul style="list-style-type: none">• Export Express: SBA-backed loans and lines of credit of up to USD250,000 through participating US banks who do not normally lend against export receivables; guarantees of up to 90% on export loans | <ul style="list-style-type: none">• Trade Finance and Insurance: tailoring export finance strategy for a particular SME using a combination of loans from the Export-Import Bank of America, SBA and other trade finance organisations |
| <ul style="list-style-type: none">• Export Working Capital Loan: for SMEs that are able to export and need working capital to support these sales; lines of credit of up to USD2 million and guarantees of up to 90% of loan value for participating banks | |
| <ul style="list-style-type: none">• International Trade Loan: term loans for SMEs who want to start/develop export market(s) or for SMEs who have been affected by cheap imports; loans of up to USD2 million with guarantees of up to USD1.5 million to the participating lender bank | |
| <ul style="list-style-type: none">• Export Credit Insurance | |
| Export Assistance | |
| <ul style="list-style-type: none">• Export Assistance Centres | |
| Information | |
| <ul style="list-style-type: none">• Online tariff search | <ul style="list-style-type: none">• Market Intelligence: free country and industry reports, customised market research, background checks on foreign firms, trade data and analysis |
| <ul style="list-style-type: none">• Schedule B Number Classification system | |
| <ul style="list-style-type: none">• SBA Export Library | |
| Legal | |
| <ul style="list-style-type: none">• Export Legal Assistance Network | |
| Export Promotion | |
| | <ul style="list-style-type: none">• Commercial Diplomacy: diplomatic negotiations with foreign governments for access to their markets and to protect US business interests abroad, especially when bidding for foreign government tenders |
| | <ul style="list-style-type: none">• Business Match-making: Search, identify and facilitate interactions with pre-screened business partners overseas; organise trade missions led by senior US government leaders and trade shows; organise in-country promotional events (includes featuring SMEs on local language websites). |

In addition, USCS also provides assistance to international firms seeking business ties with US SMEs through coordination and matchmaking services for domestic and international trade events and through customised supplier searches for foreign firms in the US.

Key Processes

Key business processes of institutions are categorised into three main categories: Planning, Execution and Results. (both in terms of outputs as well as result evaluation mechanisms)

PLANNING

Both USCS and SBA produce a variety of trade data and also utilise data produced by different government agencies to prioritise programmes and set targets. All export and import statistics classify a product using one of four commodity classification codes: Harmonised Tariff Schedule (HTS), Schedule B Number, North American Industry Classification System (NAICS), or Standard International Trade Classification (SITC). Each of these classification systems allows the assignment of 6- to 10-digit codes for specific items, which then allow agencies to collect and analyse data for each coded item.

Trade data that is produced is also made available to SMEs. The ITA maintains the statistical service known as Trade Stats Express. USA Trade Online is another trade data service provided by the US Census Bureau. It offers the most current export and import statistics and provides a wealth of detail such as the unit price (quantity/value) of specific products in foreign countries.

EXECUTION

All export promotion services are made available through an online portal called Export.gov, while information on US SMEs tailored for foreign firms doing business in the US is made available through BuyUSA.gov. Both USCS and SBA also share a network of Export Assistance Centres in the US (all 50 states) and abroad (in 123 countries) and in five major development banks (including the World Bank).

RESULTS

American institutions have been chosen as a case study due to the country's performance in supporting SMEs in overseas and domestic markets. Among the countries in our sample, the US has the highest scores in the Global Competitiveness Report 2009–10 for indicators related to the “Extent of Marketing” and “Foreign Market Size Index” parameters 2009–10⁴⁷. It was also ranked 18 (India was ranked 94) in the “Trading across Borders” parameter of the International Finance Corporation’s Doing Business 2010 survey.

Table 26 USA’s ranking in Doing Business 2010 survey Trading Across Borders

| Economy | Ease of Doing Business Rank | Trading Across Borders |
|-----------------|-----------------------------|------------------------|
| Korea, Republic | 19 | 8 |
| Japan | 15 | 17 |
| United States | 4 | 18 |
| Taiwan, China | 46 | 33 |
| Malaysia | 23 | 35 |
| China | 89 | 44 |
| India | 133 | 94 |
| Brazil | 129 | 100 |
| South Africa | 34 | 148 |

Source: Doing Business 2010, The World Bank, “Trading across Borders” parameter

47 World Economic Forum (2010), The Global Competitiveness Report 2009–10, Geneva

Table 27 USA's ranking in Doing Business 2010 survey Time to Export

| Economy | Documents to export (number) | Time to export (days) | Cost to export (USUSD per container) | Documents to import (number) | Time to im-port (days) | Cost to import (USUSD per container) |
|---------------|------------------------------|-----------------------|--------------------------------------|------------------------------|------------------------|--------------------------------------|
| United States | 4 | 6 | 1,050 | 5 | 5 | 1,315 |
| Korea, Rep. | 3 | 8 | 742 | 3 | 8 | 742 |
| Japan | 4 | 10 | 989 | 5 | 11 | 1,047 |
| Brazil | 8 | 12 | 1,540 | 7 | 16 | 1,440 |
| Taiwan, China | 7 | 13 | 720 | 7 | 12 | 732 |
| India | 8 | 17 | 945 | 9 | 20 | 960 |
| Malaysia | 7 | 18 | 450 | 7 | 14 | 450 |
| China | 7 | 21 | 500 | 5 | 24 | 545 |
| South Africa | 8 | 30 | 1,531 | 9 | 35 | 1,807 |

Source: Doing Business 2010, The World Bank, "Trading across Borders" parameter

As a rough measure of institutional development and quality of governance, corruption levels have also been ranked. The US scored 7.5 on a scale of 10 in Transparency International's Corruption Index for 2009. India scored 3.4—the lower the score, the higher the level of corruption. The highest scorer in this study's country sample is Japan with 7.7.

USCS steers its programmes and activities through the Office of the Chief Financial Officer at its parent International Trade Administration (ITA). The CFO's office contains three divisions:

- Office of Financial Management: provides financial management services, develops strategic and performance plans and multiyear performance measures, develops ITA's budget and acts as the focal point for Government Accountability Office (GAO) and Departmental Inspector General audit activities relating to financial management in ITA.
- Office of Strategic Resources: evaluates ITA workforce operations by examining key organisation factors such as employee engagement, workforce trends/development needs and employee satisfaction; also conducts programme analysis and independent evaluations.
- Office of Management and Operations: provides management, organisation and procedural analysis for ITA's divisions; administers management improvement and customer service programmes; assists in the acquisition of management, evaluation and administrative support services.

ITA and its constituent divisions have to, in turn, plan activities in line with the parent Department of Commerce's six-year Strategic Plans and be subject to independent audits organised by the department.

The SBA also evaluates itself against a five-year Strategic Plan and produces the following documents to evaluate and track performance against goals:

- Summary of Performance and Financial Information (published since FY 2007)
- Annual Performance Plan
- Annual Performance Report
- Annual financial Report
- Budget Requests and Performance Plans
- Loan Loss Reports

In addition, the SBA publishes the results of Inspector General Audits and any Investigative Reports if necessary.

Malaysia
INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

Figure 17 Overview institutional framework for SME promotion Malaysia



ORGANISATION BACKGROUND

The National SME Development Council (NSDC) serves as Malaysia’s highest policy-making body for SMEs, fulfilling the following functions:

- ▲ To formulate the overall broad policies and strategies to facilitate development of SMEs across all economic sectors
- ▲ To review the roles and responsibilities of government ministries and agencies responsible for SME development
- ▲ To enhance cooperation and coordination and guide stakeholders to ensure the effective implementation of SME development policies and action plans
- ▲ To encourage and strengthen the role of the private sector in supporting the overall development of SMEs
- ▲ To emphasise the development of Bumiputera SMEs across all sectors of the economy

Established in 2004, NSDC is chaired by the Prime Minister, with members comprising ministers and the heads of key government agencies involved in SME development. NSDC convenes bi-annually and serves as the highest policy-making body responsible for defining the strategies and future policy direction for the comprehensive and coordinated development of SMEs in Malaysia. It coordinates the tasks of related ministries and agencies, encourages partnerships with the private sector and ensures effective implementation of the overall SME development programmes in Malaysia. Its establishment has resulted in the generation of common goals and targets for SME development. One of its key outputs is the Annual SME Integrated Plan of Action (formerly known as the National SME Development Blueprint), which sets out systems and procedures for the tracking and alignment of implementation of programmes undertaken by the various ministries and agencies involved in SME development.

One of NSDC’s principal initiatives was the establishment of a dedicated SME central coordinating agency to spearhead the development of SMEs in Malaysia. In 1996, the Small and Medium Industries Development Corporation (SMIDEC) had been established as a specialised agency to develop Malaysian manufacturing sector SMEs that could compete in the global market. In 2007, NSDC decided to set up a single agency to formulate overall policies and strategies for SMEs and coordinate programmes across all related ministries and agencies. SMIDEC was transformed in order to undertake this role and rebranded as SME Corporation Malaysia (SME Corp), officially commencing activities in October 2009.

This new agency was established to act as a secretariat to NSDC and to formulate policies and coordinate the implementation of development programmes across the 11 ministries and over 60 agencies (in all economic sectors) involved in SME development. It also oversees policy formulation and programme implementation related to the respective mandates and roles of the ministries and agencies involved in SME development. SME Corp acts as a single reference point for SMEs. Its role is to assist SMEs in all sectors, moving beyond the manufacturing sector focus of its predecessor. It offers advisory services, financial assistance and technical expertise to assist in enhancing infrastructural facilities and market access and to create other support programmes. The agency has become the centre for collection, reference and dissemination of information, including the maintenance of a comprehensive database. In this role, it undertakes economic assessments on SME performance and impact studies on the effectiveness of programmes based on an outcome approach using the Impact Analysis Framework on SME Programmes (IAFSP), which has been adapted to enhance monitoring and effectiveness of SME development programmes.

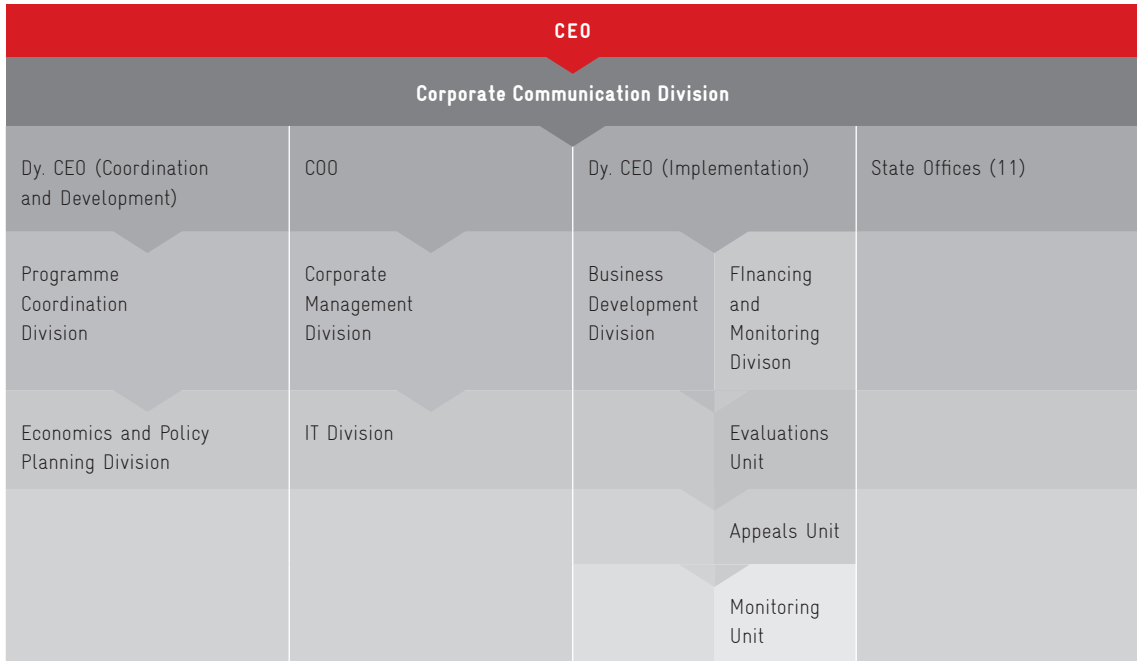
The structure of SME Corp highlights the effort to create a one-stop shop institution that serves as an umbrella organisation for the complete portfolio of the government’s SME support efforts. It combines all functions of the value chain under one roof, namely policy advocacy, coordination of implementation of policies and programmes and the operational function of advisory services to SMEs.

ORGANISATION STRUCTURE

SME Corp is headed by a Chief Executive Officer (CEO) reporting to the NSDC and the Ministry of International Trade and Industry. A Chief Operating Officer (COO) manages internal functions and business processes such as human resources development and information technology. For SME-related services and programmes, the CEO is assisted by two Deputy CEOs, one for Coordination and Development and the other for Implementation (see organogram below). The Deputy CEO of the Implementation Division manages the Financing and Monitoring Division, which is responsible for coordinating financial assistance to SMEs. Key functions of this division include:

- ▲ Evaluating grant applications and administering financial assistance claims
- ▲ Monitoring project implementation and performance of grant recipient companies
- ▲ Formulating and evaluating financial assistance guidelines
- ▲ Assisting in handling issues related to SME financing needs through cooperation with other ministries and agencies as well as other financial institutions

Figure 18 Organisation structure of SME Corp Malaysia



ORGANISATION RESOURCES

The total national budget for SME support is equivalent to approximately 2% of GDP (2008) and includes 129 programmes that focus on building the capacity and capability of SMEs, 26 programmes that are aimed at strengthening the enabling infrastructure and 19 programmes for enhancing access to financing.

Data on the annual budget of SME Corp is not available. The head office of SME Corp has a total staff of 247. Staff allocation across its seven divisions and the Chairman and CEO's offices are shown in the following table:

Figure 19 SME Corp Staffing at Head Office

| Position/ SME Corp Division | Chairman's Office | CEO Office | Corporate Management | Business Development | Programme Coordination | Information Technology | Corporate Communica- tion | Economic and Policy Planning | Financing and Monitor- ing | Positions/ Designation |
|--------------------------------|----------------------|------------|-------------------------|-------------------------|---------------------------|---------------------------|---------------------------------|------------------------------------|----------------------------------|---------------------------|
| Chairman | 1 | | | | | | | | | 1 |
| CEO | | 1 | | | | | | | | 1 |
| COO | | | 1 | | | | | | | 1 |
| Dy. CEO | | 2 | | | | | | | | 2 |
| Senior Director | | | | 1 | 1 | | | 1 | | 3 |
| Director | | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | 7 |
| Personal Assistant | 1 | 3 | 2 | 1 | 1 | 1 | | 1 | 1 | 10 |
| Deputy Director | | 1 | | 2 | 3 | | | | 1 | 7 |
| Auditor | | 1 | | | | | | | | 1 |
| Accountant I | | | 1 | | | | | | | 1 |
| Accountant II | | | 1 | | | | | | | 1 |
| Special Officer to CEO | | 1 | | | | | | | | 1 |
| Senior Manager | | | 2 | | 1 | | 2 | 3 | 1 | 13 |
| Manager | | | 3 | 4 | | 2 | 3 | 1 | 4 | 21 |
| Accounts Assistant | | | 2 | 8 | | | | | | 2 |
| Assistant Manager | | 1 | 2 | | 6 | 3 | 8 | 4 | 21 | 58 |
| Senior Executive I | | | 2 | 13 | | | 1 | | 1 | 4 |
| Senior Executive II | | | 4 | | | 2 | 2 | | 6 | 14 |
| Audit Executive | | 2 | | | | | | | | 2 |
| Executive | | 2 | 8 | | 3 | 5 | 4 | 4 | 8 | 41 |
| Senior Assistant Executive | | | 1 | 7 | | | 1 | | 1 | 4 |
| Assistant Executive | | | 2 | 1 | | | | | | 2 |
| IT Technician | | | | | | 2 | | | | 2 |
| Supporting Staff | | 3 | 15 | 2 | 4 | 1 | 6 | 2 | 15 | 48 |
| Positions/Division | 2 | 18 | 47 | 39 | 19 | 17 | 28 | 17 | 60 | 247 |

Besides its head office, SME Corp has its own network of 11 state-level offices with a cumulative staff strength of 49. The offices and their staff composition are shown in the following table. As can be seen from the table, each state office is rather small, with an average staff of four people:

Figure 20 SME Corp Staffing at State Offices

| POSITIONS | | | | | |
|-----------------|----------------|-----------------------------|-----------|------------------|--------------|
| State Office | State Director | Assistant State Director | Executive | Supporting Staff | Staff/Office |
| Perak | 1 | 1 | 1 | 2 | 5 |
| Penag | 1 | 1 | 1 | 3 | 6 |
| Kedah & Perils | 1 | 1 | 1 | 1 | 4 |
| Negeri Sembilan | 1 | 1 | 0 | 1 | 3 |
| Malacca | 1 | 0 | 1 | 0 | 2 |
| Johor | 1 | 0 | 1 | 0 | 2 |
| Pahang | 1 | 0 | 2 | 2 | 5 |
| Kelantan | 1 | 1 | 2 | 2 | 6 |
| Terengganu | 1 | 1 | 1 | 2 | 5 |
| Sabah | 1 | 1 | 1 | 2 | 5 |
| Sarawak | 1 | 1 | 0 | 1 | 3 |
| Staff/Position | 11 | 9 | 10 | 19 | 49 |

Source: SME Corp

As can be seen from the table above, each State office is rather small with an average staff of four people.

SME Services

SME Corp manages the coordination and implementation of programmes based on policies defined by NSDC. Financial flows to SMEs are through a combination of government, development financial institutions, private sector and commercial banking sources. Key business processes can be classified into the five broad functional categories of needs assessment, targeting, delivery channels, monitoring and evaluation. The Finance and Monitoring Division within SME Corp coordinates the supply of financial assistance to SMEs from multiple ministries and programmes. Financial support falls into one of the following categories:

- Soft loans
- Grants
- Equity financing
- Venture capital
- Guarantee schemes
- Tax incentives

Key Processes
PLANNING

The Department of Statistics conducts a Census of Establishments and Enterprises, which provides sector information on SMEs. The Malaysia Productivity Corporation conducts productivity surveys for SMEs especially in the manufacturing and services sectors.

The Ninth Malaysia Plan (9MP) for the period 2006–10 provides strategies for SME promotion in the four broad areas of outsourcing, inter-firm linkages, entrepreneurship programmes and knowledge skills. The Third Industrial Master Plan (IMP3) defines strategies for SME promotion in all sectors for a 15-year timeframe.

The Annual SME Integrated Plan of Action (formerly known as the National SME Development Blueprint), an annual plan produced by the NSDC, is now the key plan used by the government to prioritise services to SMEs. Using Key Performance Indicators, the plan seeks to reduce duplication and improve collaboration in programmes run by several ministries and agencies. It categorises all SME-related interventions into three categories:

- Strengthening the enabling infrastructure
- Building the capacity and capability of domestic SMEs
- Enhancing access to financing by SMEs

Figure 21 Portal screenshot of SME Credit Bureau Malaysia

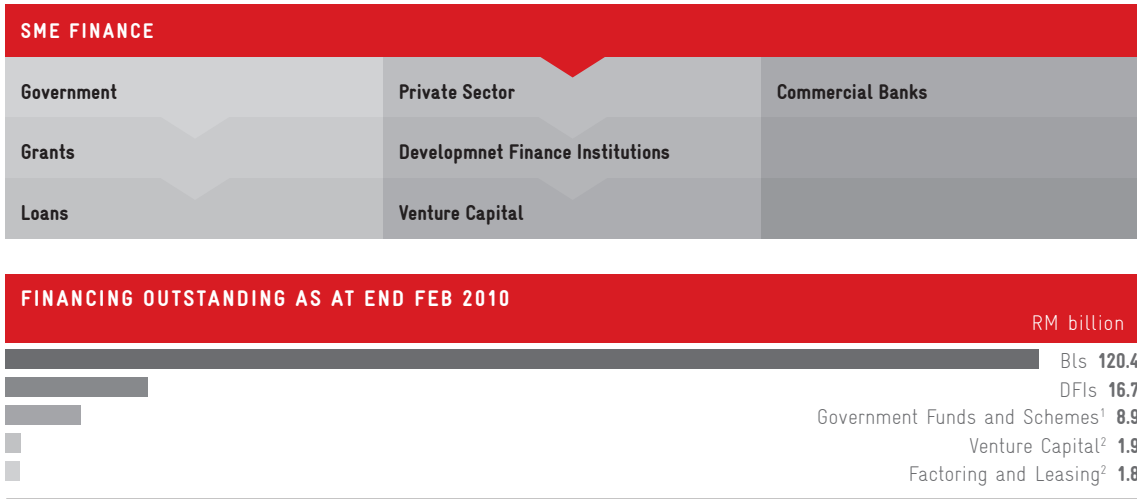


Within the area of SME financing, Bank Negara Malaysia maintains a Central Credit Reference Information System (CCRIS) containing the credit histories of borrowers, which include 28,200 SMEs. The bank manages a SME Credit Bureau that uses CCRIS to deliver credit to SMEs (see portal screenshot above). SME Corp also maintains its own national SME database. It is not clear if this is independent from the CCRIS.

EXECUTION

SME Corp coordinates the supply of financial assistance through a network of other government ministries and agencies, development finance institutions (DFIs), venture capital funds and commercial banks. The two primary channels of SME finance are banks and DFIs (see chart below).

Figure 22 Organisational Overview of SME Financing in Malaysia



1 At end Sep 2009 | 2 At end 2008 | Source: Bank Negara Malaysia, SME Corp and Securities Commission
KEY: Banking Institutions (BI), Development Finance Institutions (DFI)

The two primary channels of SME finance are banks and Development Financial Institutions (see chart above). In terms of the overall economy, the major share of finance was allocated to the manufacturing and services sectors, where SME activity is dominant (see figure below).

Figure 23 Financing by sectors in Malaysia



SME sectors are likely to be targeted with varying weights by each of these financing channels. For instance, direct provision of matching grants and loans by government focused on manufacturing and services (excluding financial services) sectors till 2007 in accordance with the National SME Development Blueprint, a strategy document updated annually (now known as the Annual SME Integrated Plan of Action).

Most programmes for this period were for loan amounts in the categories of up to USD10,000 and between USD1–5 million. Grants, on the other hand, were usually in the form of matching contributions from government and frequently fell in the category of USD100–500,000⁴⁸.

48 Based on analysis of loans and grants data from Small and Medium Industries Development Corporation (2007), Policies, Incentives, Programmes and Financial Assistance for SMEs, Government of Malaysia

In addition to sector priorities, the Malaysian government also plans financial support programmes based on the SME's position in its business cycle. The government translates this approach into three categories of finance to SMEs:

- Start-ups: early stage financing
- Business expansion: financing for growth
- Rehabilitation: lending a helping hand

SME Corp also uses scoring or ranking of SMEs to prioritise finance and non-finance support to SMEs. First, it has a SME rating programme called SME Competitiveness Rating for Enhancement (SCORE) where SMEs can use an online diagnostic tool to obtain a “competitiveness score” based on various business parameters. Firms scoring 4 or higher on a scale of 5 are eligible to obtain further support from Malaysia External Trade Development Corporation (MATRADE), the trade promotion agency of the government.

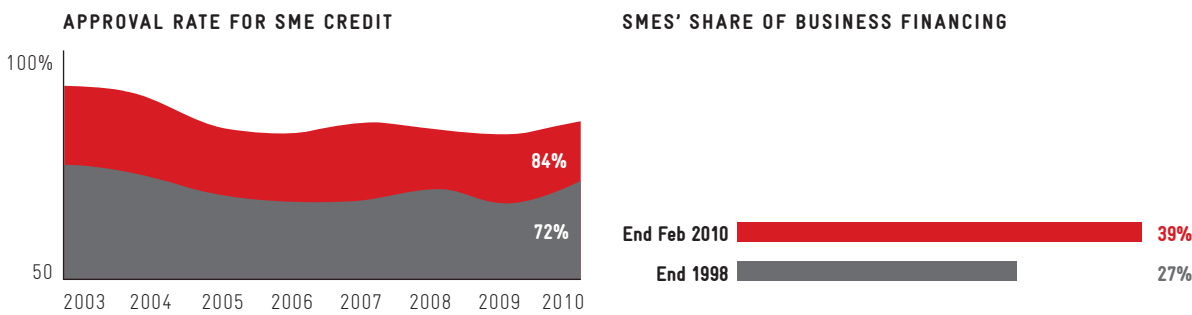
Second, it runs the 1-InnoCERT (1-Innovation Certification for Enterprise Rating and Transformation) innovation standard. Firms in the high-technology sector choosing to obtain this standard are given “fast track” access to finance and business advisory services.

Finally, SME Corp offers the Small Debt Resolution Scheme through a network of banks and DFIs that provides debt restructuring facilities to SMEs unable to service their existing debt obligations.

RESULTS

In enhancing access to financing for SMEs, a total of 23 programmes involving a financial commitment of RM1.9 billion were made available to 70,607 SMEs in 2008⁴⁹. Credit provision to SMEs was quick as suggested by a high 84% approval rate for SME financial assistance measures (see figure below). SME share in business financing increased to 39% in early 2010 compared to 27% in 1998.

Figure 24 Approval rate for SME credit and SME share of business financing

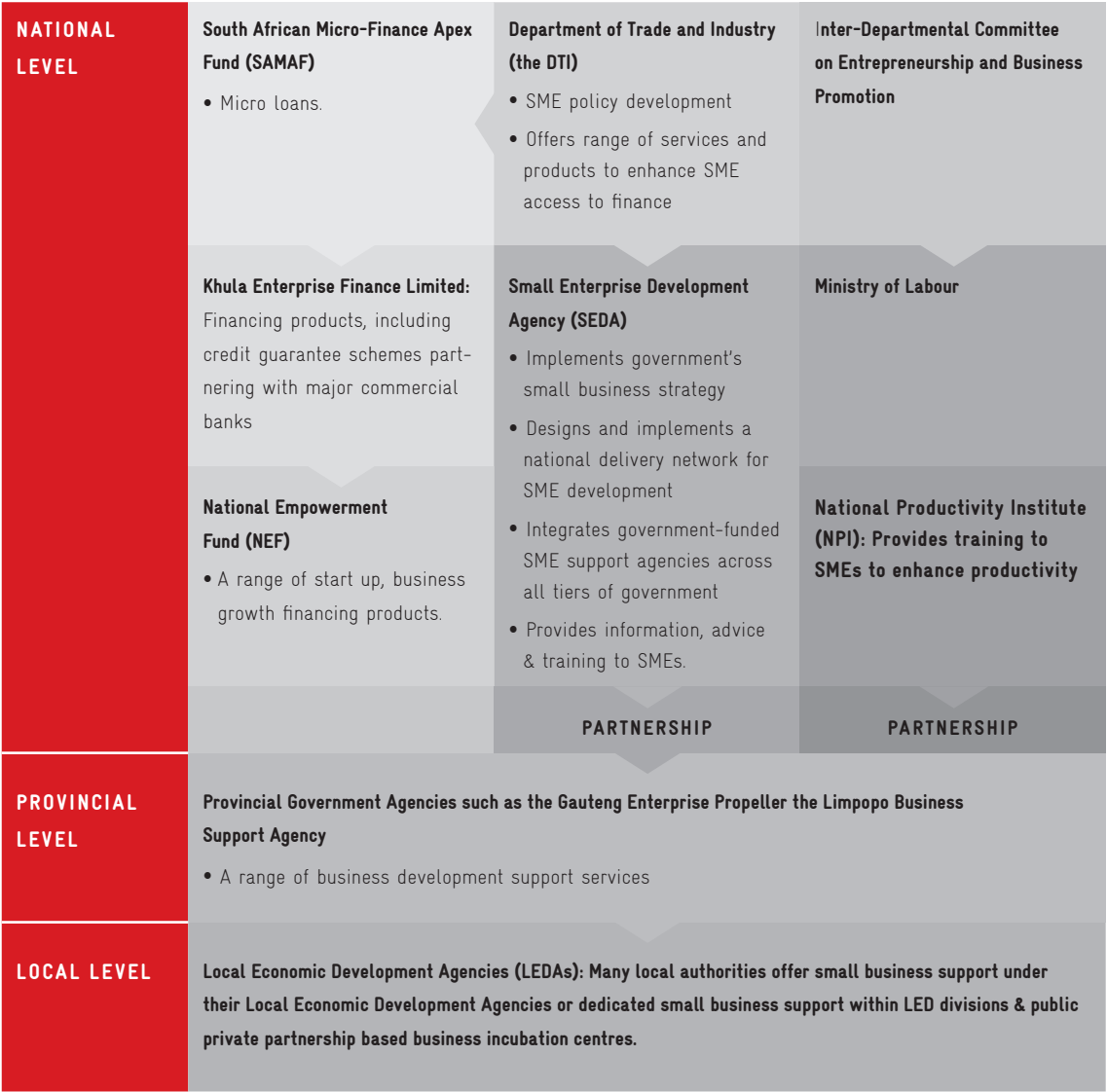


Source: Bank Negara Malaysia

SME Corp has introduced a new Impact Analysis Framework on SME Programmes (IAFSP) to track implementation of programmes and undertake independent assessment using an outcome-based approach. Further information on the indicators and formats used by the IAFSP is not available yet and is expected to be released in 2010-11 with the publication of the first results of analysis.

⁴⁹ SME Corporation Malaysia (2008), Annual Report of SME Corporation Malaysia 2008, Government of Malaysia

South Africa
INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT



As large enterprises have restructured and downsized, small, medium and micro enterprises (SMMEs) have come to play an increasingly important role in South Africa's economy and development. Because the sector has grown significantly, the government has targeted it as an economic empowerment vehicle for previously disadvantaged people. As a result, SMMEs have received significant attention and investment, mainly set out in the National Small Business Act in 1996. The act outlines the following common problems faced by SMMEs:

- Unfavourable legal environment
- Lack of access to markets and procurement
- Lack of access to finance and credit
- Low skills levels
- Lack of access to information
- Shortage of effective supportive institutions.

Measures undertaken to solve these problems and to improve the operational framework for SMMEs range from the establishment of state-initiated projects to supportive legislation to government incentives.

The National Small Business Act has been amended three times, in 2003, 2004 and the latest in 2006. These amendments have more than once transformed the landscape of national institutions involved in SME promotion. One example is the creation of the South African Micro-Finance Apex Fund (SAMAF) in 2006 as a response to the need of financing the poorest and so-called survivalist enterprises in South Africa. Another example of reforms is the creation of the Small Enterprise Development Agency (SEDA) in 2004 in response to the lack of a common service delivery network for SMEs that was the cause of insufficient awareness about government programmes.

The number of SMMEs in South Africa is estimated to be between 1 and 3 million. If survivalist and micro businesses are excluded, the number is in the range of 250,000 to 650,000 enterprises, which represents a contribution to GDP of about 50%; the contribution to employment is even more.

ORGANISATION BACKGROUND

South African SMME policies are strongly targeted at micro and ‘survivalist’ enterprises, representing the informal sector of the economy. This sector has traditionally lacked access to credit and represents a major challenge to SME promotion efforts.

There are three main institutions in the field of SME credit: the Industrial Development Corporation (IDC) and Khula Enterprise Finance Ltd. are independent, self-financing, limited liability companies. SAMAF is a trading entity of the Department of Trade and Industry (DTI) that is mandated to build a sustainable micro-finance infrastructure in South Africa.

While the three institutions overlap in some of their products, they work within highly targeted SME segments in South Africa, covering the three main needs of financing for the SME population:

- 1 Sector- and industry-specific financing needs (industrial development)
- 2 Access and availability needs as well as collateral needs
- 3 Availability of financing for the poorest (informal sector, micro enterprise financing)

Industrial Development Corporation

Created in 1940, IDC is a self-financing, state-owned development finance institution (DFI). Its function is to provide financing to entrepreneurs engaged in competitive industries and enterprises. In creating this corporation, the aim was to provide a primary source of commercially sustainable industrial development and innovation for the benefit of South Africa. In 2009, IDC had assets of approximately USD 10 billion and a turnover of USD 880 million.

Khula Enterprise Finance Ltd.

Khula is a state-owned development finance institution that was established in 1996 to facilitate access to finance for SMMEs by providing finance, mentorship services and small business premises. The company is a wholesale finance institution that operates across the public and private sectors through a network of channels, including South Africa’s leading commercial banks, retail financial institutions, specialist funds and joint ventures. Its primary purpose is to provide financing to that segment of the SME market that is not addressed by commercial financial institutions.

South African Microfinance Apex Fund (SAMAF)

SAMAF is a wholesale funding institution that was established in 2006. SAMAF is tasked by DTI to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for the purpose of growing their own income and asset base. This is accomplished through the provision of direct funding, institutional and client capacity building and savings mobilisation through cooperatives and other already

established formations, such as burial societies and stokvels, which favour the accumulation of locally owned and invested wealth. The long-term goal is to build a network of self-sufficient and sustainable micro-finance institutions.

Small Enterprise Development Agency (SEDA)

SEDA was established in 2004 by the National Small Business Amendment Act. Although it does not disburse credit directly, it plays a key role in the diffusion of information on access to credit to SMEs in South Africa.

Table 28 Overview of Small Enterprise Development Agency (SEDA)

| INSTITUTIONAL FEATURE | DESCRIPTION |
|---|---|
| Role /mandate | Key national-level government agency mandated to implement the government’s small business strategy, design and implement a standard and common national delivery network for small enterprise development and integrate government-funded small enterprise support agencies across all tiers of government. |
| Structure | Agency under DTI. Result of the merging of three organisations: Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre and Community Public-Private Partnership Programme. Headed by a board and CEO and divided into a number of service areas (including enterprise development and technology). |
| Stakeholders | DTI, other government departments and agencies, a wide range of stakeholders in the small enterprise support sector. |
| Budget and finance sources | National government agency under DTI. Funded through national government budget. |
| Geographical reach | Nationwide network of nine provincial offices, 42 district branches, four mobile units, 46 Enterprise Information Centres across the country |
| Key strengths / weaknesses / major achievements | <ul style="list-style-type: none">• With limited resources to promote SMEs, SEDA’s key function is to provide a framework for integrated SME service provision through other government agencies and private sector organisations• Integration of a wide range of institutions to support SME efforts• Cooperative approach with partners inside and outside the government |

KEY INSTITUTIONAL RELATIONSHIPS

The promotion of SMMEs in South Africa is the primary responsibility of the Department of Trade and Industry (DTI), which is funded directly by the government. One of the key features of DTI is its reliance on an extensive network of agencies, institutions and partnerships to support SMME development.

The agency within DTI responsible for creating an enabling environment for SMMEs to contribute to the country’s GDP and reducing unemployment is the Enterprise Development Business Unit (EDU). EDU is responsible for the development of legislative frameworks, policies, strategies and programmes aimed at lowering entry barriers and stimulating the participation of these enterprises in all sectors of the economy. The unit implements its mandate through a range of institutions directly funded by DTI and therefore has the responsibility of evaluating and monitoring the performance of such institutions.

On the operational level, SEDA is the main (non-financial) agency implementing the government's SMME strategies and policies. SEDA's mandate is to design and implement a standard and common national delivery network that must uniformly apply throughout South Africa in respect of SMME development, integrating all government-funded small-enterprise agencies across all tiers of government. For this purpose, SEDA has established a network of local access points for SMEs to address with their problems. SEDA's main focus is on developing products and services to assist small, micro and cooperative enterprises while continuing to provide existing products and services to medium enterprises.

Beyond the activities of SEDA, the implementation of DTI initiatives takes a cooperative approach by including a growing number of partners, both within and outside the government. On the finance side, numerous Development Finance Institutions implement DTI SMME policies. Each of these institutions addresses a specific SMME financial need. For example, Khula Enterprise Finance Ltd is a wholesale finance institution with well-developed ties in the public and private sector. Through these channels it has facilitated a Credit Indemnity Scheme (guarantee scheme), providing "wholesale finance" or guarantees to retail financial intermediaries, which, in turn, finance the SME sector. SAMAF supports the development of sustainable microfinance institutions. Both institutions focus on black-owned businesses, start-ups needing small loans with limited security and SMEs in underserved provinces, hence providing for micro loans, on-lending etc.

Other examples of institutions and schemes implementing DTI policies in different areas of SME promotion include the South African Women Entrepreneurship Network (SAWEN), a Sector Specific Assistance Scheme (SSAS) and an Export Marketing and Investing Scheme.

Furthermore, there are SMME programmes and assistance schemes funded directly by other ministries and government departments. Examples of these include schemes initiated by the Ministry of Agriculture and the Department of Science and Technology. These programmes are not funded directly by the DTI but are nonetheless coordinated by SEDA.

Figure 25 Links between SEDA and Development Finance Institutions

| | | |
|--------------|--|---|
| POLICY | Department of Trade and Industry | <ul style="list-style-type: none">• SME Policy Development• Offers a range of services and products to enhance SMME access to finance |
| | Enterprise Development Business Unit (EDU) | <ul style="list-style-type: none">• Responsible for coordinating, managing and monitoring implementation of national strategies for SMMEs• Also designs policies and strategies |
| COORDINATION | | |
| OPERATIONAL | Small Enterprise Development Agency (SEDA) | <ul style="list-style-type: none">• Responsible for designing and implementing a national delivery network integrating all government-funded SMME support• Provides information, advice and training to SMMEs |
| | Development Finance Institutions (DFIs) | <ul style="list-style-type: none">• Includes the South African Micro-Finance Apex Fund, Khula Enterprise Finance, National Empowerment Fund, Industrial Development Corporation and Export Credit Insurance Corporation• Responsible for establishing a favourable financial environment• Eg. Micro loans, credit guarantee schemes, on-lending, and other financial products |
| | Other DTI Initiatives | <ul style="list-style-type: none">• The DTI Group includes a range of agencies, schemes, incentives and funds for promoting the development of the SMME sector• Eg. South African Women's Entrepreneurship Network (SAWEN). The Enterprise Organisation (TEO), Technology for Women in Business (TWB), etc |
| | Other government funded SME support programmes | <ul style="list-style-type: none">• Apart from the DTI departments and ministries such as the Department of Science and Technology (DST), Ministry of Agriculture (MoA), etc also implement SMME related programmes.• Eg. Tshumisano Trust (DST), Land Bank (MoA) |

ORGANISATION STRUCTURE, RESOURCES AND PRODUCTS

All institutions involved in facilitating and granting access to finance to South African SMEs report to DTI, or more precisely, to the Enterprise and Industry Development Division. The Minister of Trade and Industry is the head of DTI although the Director General handles its operational management. IDC has seven divisions, each dealing with a specific field of trade and industry. This functional structure is as well reflected in the mandates of the different institutions. High-level monitoring is conducted by the EDU, which ensures the alignment of the performances of the institutions with DTI's strategic framework. DTI employs a total of 1,007 people with a vacancy rate of 18.1% of which 128 are senior management. The budget for the Enterprise and Industry Development Division decreased in 2009 to USD 80 million (11% of the total DTI budget) from USD 109 million in 2008 (15% of the total DTI budget). A comparative table of the three major development finance institutions responsible for credit allocation is given below.

Table 29 Comparison of South African development finance institutions

| | Industry Development Corporation (IDC) ⁵⁰ | Khula Enterprise Finance Ltd. ⁵¹ | South African Micro Finance Apex Fund (SAMAF) ⁵² |
|---------------------|---|--|--|
| Purpose | DFI for industrial capacity development and entrepreneurship. Output of USD 1.8 billion of funding. 61% of the loans are directed to SMEs (20% of total value). | Provision of finance, mentorship services and small business premises, addressing market deficiencies in the SME financing sector through a network of partnerships with banks, Retail Financial Institutions, joint ventures and specialist funds. | Provision of access to affordable financial services, institutional and client capacity building and savings mobilisation through cooperatives and other formations such as burial societies and stokvels for the accumulation of locally owned and invested wealth. |
| Corporate Structure | <ul style="list-style-type: none">• Strategic Business Units for industry, resources and service sector respectively.• General council on issues such as international financing and legal services.• Human capital division responsible for training.• Financial and Risk Management, Marketing and Division of Chief Economist (Research). | <ul style="list-style-type: none">• The Financial Department and Risk and Compliance Department are the two main operational bodies that elaborate the disbursement requirements of funds.• The Marketing and Communication department is responsible for awareness raising campaigns and the HR Department coordinates mentorship services as well as training for delivery agencies (private banks and other financial intermediates) | <ul style="list-style-type: none">• Tender, Credit (partially staffed with experts from the National Treasury), Executive (Corporate Strategy) and Risk Management (Financial) committees are the operational entities of SAMAF.• The advisory board comprises four independent experts from DTI and oversees the audit committee on performance revision and monitoring. |
| Products | <ul style="list-style-type: none">• Equity• Quasi-equity• Commercial debt• Wholesale finance• Bridging finance (working capital)• Share warehousing• Export/import finance• Short-term trade finance• Venture capital | <ul style="list-style-type: none">• Credit indemnity schemes• Wholesale loans• Joint Ventures• Funds• Pre- and post loan mentorship• Property Services (Incubators and Business Premises) | <ul style="list-style-type: none">• On-lending Fund• Micro-Enterprise Development Loan• Poverty Alleviation Loan• Capacity Building Fund• Savings Mobilisation Fund |

| | | | |
|-----------|---|--|--|
| Resources | <ul style="list-style-type: none">• Funding from DTI decreased from USD 723,000 in 2008 to USD 72,000 in 2009• Human Resources: 94 employees of which 3 are executives and 17 senior managers. | <ul style="list-style-type: none">• Funding from DTI decreased from USD 11.571 million in 2008 to USD 5.247 million in 2009.• Human Resources: 74 employees of which 1 is an executive and 19 senior managers. | |
| Outreach | <ul style="list-style-type: none">• One head office and nine regional offices | <ul style="list-style-type: none">• One head office and nine regional offices, plus 119 branches through joint venture partners and also works through branches of commercial banks. | |
| Results | <ul style="list-style-type: none">• USD 1.887 million total funding in 2009 (52.2% Resources, 19% Industrial, 28.8% Service sector).• USD 1,453 million total funding in 2008 (47.6% Resources, 163.4% Industrial and 36% Service sector).• 20% of the funds have been directed to SMEs representing 61% of all loan approvals. | <ul style="list-style-type: none">• Business loans and joint venture fund disbursement to financial intermediaries amounted to USD 50 million in 2008 and USD 37 million in 2009.• Indemnity funds used by banks decreased from USD 33.3 million in 2008 to USD 13.2 million in 2009.• Khula Enterprise retains an investment portfolio (property and stock) of USD 172.5 million in 2009. | <ul style="list-style-type: none">• Since its establishment in 2006, USD 7.73 million has been disbursed to 47,268 (out of which 29,714 were in 2009) micro-survivalist entrepreneurs and benefiting 236,340 people either directly or indirectly. |

50 2009 Annual Report South African Department of Trade and Industry as well as www.thedti.gov.za
51 2009 Annual Report Khula Enterprise Finance Ltd. as well as www.khula.org.za and Makina and Malobola (2004) Impact assessment of microfinance programmes, including lessons from Khula Enterprise Finance
52 2009 Annual Report South African Microfinance Apex Fund as well as www.samaf.org.za

Figure 26 Organisation structure of SME Institutions in South Africa



Key Processes

Figure 27 Industry Development Corporation Key Processes

| INDUSTRY DEVELOPMENT CORPORATION | | |
|----------------------------------|---|---|
| Needs Assessment | The DTI elaborates the high-level strategy for financing related needs of SMEs in its medium-term strategic framework | The Enterprise Development Business Unit within the DTI coordinates programmes with other financial development institution and also through performance monitoring conducted in cooperation with Khula |
| Targeting | IDC develops loan products that correspond to the target population of private enterprises in South Africa depicted in its mandate and revises programmes based on past-performances | |
| Selection of Delivery Channel | IDC directly delivers financing to companies and has a specific application process for SMEs, providing assistance with the creation of business plans | |
| | Strategic Business Unit for the resource sector using the IDC infrastructure of nine regional offices and one head office | |
| Monitoring | Post-investment monitoring department within IDC Regular reviews, client visits as well as analysis of financial information in order to proactively identify clients that have financial difficulties | |
| Evaluation | Performance evaluation through the Enterprise Development Business Unit within DTI | |

Figure 28 Khula Enterprise Finance Limited key processes

| KHULA ENTERPRISE FINANCE LTD. | | | | |
|-------------------------------|--|--|---|---|
| Needs Assessment | The DTI elaborates the high-level strategy for financing related needs of SMEs in its medium-term strategic framework | | The Enterprise Development Business Unit within the DTI coordinates programmes with other financial development institution and also through performance monitoring conducted in cooperation with Khula | |
| Targeting | Khula develops loan products that correspond to the target population of SMEs depicted in its mandate and revises programmes based on past-performances | | | |
| Selection of Delivery Channel | Khula establishes a set of eligibilty criteria for each of its programmes' delivery agencies through which SMEs apply for funding | | | |
| | Retail financial intermediaries such as NGOs and other financial service providers Khula provides loans for on-lending, interest free seed capital, grants and capacity building | Commercial Banks receive credit guarantees for loans to SMEs. These are individual, institutional and portfolio guarantess | Business support services are provided with pre and post loan mentorship programmes also to other delivery agencies | Regional private equity funds provision of risk capital to support emerging entrepreneurs |
| Monitoring | External (DTI) and internal (Khula) impact monitoring as well as statutory auditing of financial situation | | | |
| Evaluation | Performance revision and improvement measures initiated by the internal auditing committee of Khula | | Performance evaluation through the Enterprise Development Business Unit within DTI | |

Figure 29 South Africa Microfinance Apex Fund (SAMAF) key processes

| SOUTH AFRICAN MICROFINANCE APEX FUND (SAMAF) | | | |
|--|---|---|---|
| Needs Assessment | The DTI elaborates the high-level strategy for financing related needs of SMEs in its medium-term strategic framework | | The Enterprise Development Business Unit within the DTI coordinates programmes with other financial development institution and also through performance monitoring conducted in cooperation with SAMAF |
| Targeting | SAMAF develops loan products that correspond to the target population of individuals and micro-enterprises in South Africa depicted in its mandate and revises programmes based on past-performances | | |
| Selection of Delivery Channel | SAMF provides microfinance and micro-enterprise loans to individuals earning less than USD 500 per month and to households earning less USD 200 per month through cooperative financial institutions and other microfinance institutions (eg. MFIs or stokvels) | | |
| | 1 Step: Reception of application and review (preliminary appraisal) followed by a field visit (eligibility) | 2 Step: Capacity building intervention as a requirement for full approval that is followed by strategy development and loan agreement | 3 Step: Orientation course and fund disbursement. Implementation of monitoring mechanism and loan recovery in case of default |
| Monitoring | Monitoring and evaluation is conducted by the audit committee on performance revision and monitoring on monthly basis and directly post loan disbursement | | |
| Evaluation | Performance evaluation through the Enterprise Development Business Unit within DTI | | |

European Union
INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

Figure 30 Institutional overview of SME promotion institutions in the EU

| | | | | |
|--------------|--|--|---|--|
| POLICY | European Commission Directorate General for Enterprise and Industry | Interaction in certain areas of policy making | Directorate General for Employment, Social Affairs and Equal Opportunities | <ul style="list-style-type: none">• Central policy-making body• Coordinates and controls policy implementation• Develops regulatory framework and guidelines of good practice applicable to EU and member states |
| COORDINATION | | | | <div>European Investment Fund</div> <div>European Investment Bank</div> <div>European Portal for SMEs</div> <div>European Europe Network</div> <div>National, regional and local intermediaries:<ul style="list-style-type: none">• Member state authorities• National and regional banks, financial institutions, venture capital funds• Non or partly-governmnet institutions such as Chambers of Commerce</div> |
| OPERATIONAL | Investment/Interaction | | | <ul style="list-style-type: none">• Investment into national/regional intermediaries• Provision of credit guarantees• Close interaction with national intermediaries to coordinate SME financing and the implementation of structural funds• Direct loans to SMEs <ul style="list-style-type: none">• Central information tool gathering all information on EU SME promotion• Website accesible in several languages• Point of reference for SMEs <ul style="list-style-type: none">• Business support and information network• Members in all member states and thirs countries• Over 500 regional offices• Provides integrated service of SME support• Delivers feedback on SMEs" needs to the DGEI <ul style="list-style-type: none">• Directly provide SMEs with assistance• Supply SMEs with any relevant information on EU promotion issues• Select projects to be supported and financed |

ORGANISATION BACKGROUND

The European Union (EU) is an economic union of member states. It has developed a single market through a standardised system of laws that apply in all member states and ensure the free movement of people, goods, services, and capital. It maintains common policies in areas such as trade and regional development. The European Council of Ministers defines the general political direction and priorities of the EU. The European Commission (EC) is the EU’s civil service, headed by Commissioners appointed by member states. It proposes EU legalisation and checks it is properly applied across the EU.

The EU has 20 million SMEs, representing 99% of all businesses. They provide around 65 million jobs and contribute to entrepreneurship and innovation. However, in comparison to the US, the EU is characterised by an “entrepreneurial gap”. On average, EU citizens are less inclined to become entrepreneurs and are more risk averse than their American counterparts. The EC both encourages SME development (including through fixing guidelines and promoting best practice) and seeks to limit the risk of distortions of competition in the Single Market.

By formulating the Think Small First Principle, the EU introduced a policy of consideration of SMEs particularities and needs in every part of its trade-, business- and taxation-related actions. This idea was formally set out in 2008 in the Small Business Act for Europe (SBA), which states ten principles to guide the conception and implementation of SME policies on both EU and national level. It also formulates concrete measures, including legislative steps, in order to implement the individual principles. The implementation of the SBA is currently still being carried out both by EU institutions as well as member states. Follow-ups on EU level include informative actions such as the release of an SME handbook as well as tangible measures, particularly the aim of reducing the administrative burden of SMEs by 25% by 2012. The EU’s SME policies are further characterised by a focus on promoting business innovation and entrepreneurship. The SBA identifies the facilitated foundation of new businesses and the establishment of a stronger culture of entrepreneurship as vital to both the EU’s general economic development and SME development in particular.

However, the implementation of SME promotion in the EU is mainly undertaken by the member states, who agreed to carry out the required measures and provide the regulatory framework in areas where the EU is not entitled to legislate due to the principle of subsidiarity.

This approach can be found in most of its SME promotion programmes. There are numerous schemes of action aiming at strengthening the performance of European SMEs and improving their operational environment. Common to most of them is that the general structure and aim is set up by the EU institutions, whereas the responsibility for their implementation lies with the member states. On an EU level, the guidelines of good practice for achieving specific goals (Best Methodology) are defined. In addition, the EU generates a large share of the funds required.

The measures taken by the EU can be divided into financial and non-financial. As far as financial programmes are concerned, the EU provides funds that are accessible to SMEs through various channels. There are three strands of funding programmes to be distinguished in the EU’s policies:

- Thematic funding opportunities: aimed at particular objectives relating to issues considered vital for SME development and progress and vital for economic policies. Examples are environment or energy related programmes, programmes to strengthen R&D and technological innovation amongst SMEs and programmes dealing with employment issues.

- Structural Funds: aimed at improving the development of regions as well as the economic and social cohesion within the EU (overall budget EUR 347.41 billion). Their budget and strategies are negotiated at the EU level, involving the European Investment Bank and the European Investment Fund. Their management lies entirely with national and regional entities, both from the private and the public sector, which are the contact points for funding applications and project selection. Examples include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Joint European Resources for Micro and Medium Enterprises (JEREMIE) scheme and the Joint Action to Support Micro-finance Institutions in Europe (JASMINE) scheme.
- Other financial instruments: aimed at improving the overall volume of credit available to SMEs. Examples are investments by the European Investment Fund (EIF) in venture capital firms and business incubators that in turn invest in SMEs as well as loans directly granted to SMEs by the European Investment Bank (EIB).

NON-FINANCIAL PROGRAMMES INCLUDE:

- The European Small Business Portal, which maintains an extensive supportive infrastructure, such as links to potential trade partners and investment opportunities as well as information on how to engage in public procurement in order to improve marketing capabilities and operational outreach.
- The Think Small First Principle in every area of SME promotion, particularly regarding labour and taxation issues and the rehabilitation of struggling SMEs.

Key Processes

Access to markets

In view to increasing access to global markets, Market Access Teams have been established in 30 key export markets. The latter are the result of a coordination effort of EU Delegations, Member States and the EU Commission in order to provide effective information on existing trade barriers and market opportunities for European Companies. Moreover, to assist SMEs’ to access fast-growing markets outside the EU, the Commission is setting-up business centres in a selected number of these markets. These centres help EU SMEs wishing to set up and trade in these countries by providing business support services including market access assistance, finding commercial partners, logistical support and advice on issues such as protection of intellectual property rights (IPR) and standardisation.⁵³

Additionally, the Enterprise Europe Network is operational as a business support network with 567 partner organisations active in 44 countries. Services are being provided by about 3 000 professional staff addressing about 3 million SMEs. During the first 18 months of operation, the Network organised more than 10 000 events in which around 400 000 SMEs participated and concluded more than 1 400 business and technology partnership agreements.⁵⁴

Implementation evaluation is conducted on various levels through the monitoring of policy implementation, the evaluation of implementation effects of specific initiatives (e.g. Enterprise Europe Network) based on a set of indicators and through external evaluation of the performance of the Entrepreneurship and Innovation Programme (EIP). A yearly survey on the performance of SMEs is conducted. Also a yearly conducted citizen’s survey called Eurobarometer provides important information on the performance of these European programmes.

⁵³ European Commission working document (2009), Report on the implementation of the SBA

⁵⁴ European Commission working document (2009), Report on the implementation of the SBA

In terms of access to international market European SMEs are far ahead of their Indian counterparts. This is obviously also linked to the fact that trading with another member state within the European internal market is also regarded as internationalisation. In this sense, 45% of European SMEs are somehow active in the international market. 26% of European SMEs are actually exporting directly into another country. Wholesale SMEs are with approximately 80% the most internationalized sector in the EU followed by the Mining sector with 76% and the Manufacturing sector with 73%.⁵⁵

Access to public procurement

Through the European Directive on public procurement member states have to adapt certain mechanisms to tender contract with a value above a certain threshold. The latter are fixed for categories of contracts as shown in the table below.⁵⁶

Table 30 Thresholds for common public procurement procedures in the EU

| TYPE OF CONTRACT | THRESHOLD |
|--|---------------|
| Public works | 4,845,000 EUR |
| Service contracts | 193,000 EUR |
| Supplies contracts | 193,000 EUR |
| Supplies in the sectors of water, energy and transport | 387,000 EUR |
| Supplies in the telecommunications sector | 750,000 EUR |
| Contracts falling under the GATT agreements | 125,000 EUR |

All procurement contracts falling under these thresholds have to be tendered based on European mechanisms and in a given format and in a common vocabulary. All procedures and formats are accessible on the centralised platform named SIMAP providing an easily accessible set of information and tools on the common European mechanism. Public institutions are provided with a number of web based facilitation tools to prepare their public procurement notices (eNotices) as well as an online service to electronically submit the tender (eSenders) to the Publication Office. The tenders are centralised on the TED website easily accessible for all enterprises in Europe.

Besides this, a number of other initiatives have been taken in order to facilitate the access to public procurement by SMEs. Three specialised public procurement networks became operational in September 2009 related to the lead markets identified by the EU that should enhance the competitiveness of the EU and foster growth of SMEs. Each receives about €1 million in funding and started its services in September (ENPOTEX), October (SCI-NETWORK) and November 2009 (LCB-HEALTHCARE).

As for SMEs’ access to public tenders, the European Commission has published a code of best practices for governments in order to facilitate access by SMEs to public procurement contracts. This code of conduct does not have policy status such as the Directive but it is aimed at member states in order to present possibilities how to implement mechanisms that allow increasing SMEs’ part of public procurement. Following aspects are addressed:⁵⁷

- ▲ Overcoming difficulties relating to the size of contracts
- ▲ Ensuring access to relevant information

55 Entrepreneurship Unit DG Enterprise and Industry (2010), Internationalisation of European SMEs

56 http://simap.europa.eu/supplier/opportunities-in-europe/index_en.htm (accessed August 2010)

- ▲ Improving the quality and understanding of the information provided
- ▲ Setting proportionate qualification levels and financial requirements
- ▲ Alleviating the administrative burden
- ▲ Placing emphasis on value for money rather than on price
- ▲ Giving sufficient time to draw up tenders
- ▲ Ensuring that payments are made on time

A precise guideline is presented within this code of conduct relating to increasing awareness and access to information amongst SMEs. It includes for example training and guidance for contracting authorities on SME issues. This should stimulate the exchange between SMEs and the public authority on a feedback basis so that SMEs can improve their applications and the public authorities could increase adequate procurement notices (with proportionate selection criteria) for SMEs that take into account the specific challenges mentioned above. Another guideline is aimed at minimising administrative burden for SMEs. It underlines the necessity to keep to a minimum the requirements of documents to be provided by tenderer. All information sources publicly available for the public institution should not be required from SMEs. These guidelines provide thus useful mechanisms for lowering the administrative burden and hence provide a best practice approach also to the Indian setting, as it addresses problems that SMEs face for tendering for public procurement contracts. In India, institutions try to assist SMEs to surmount bureaucratic procedures, not tackling the source of the difficulties that SMEs face.

Furthermore, the European Union has established a set of guidelines proposing a number of “core” and “comprehensive” criteria for green public procurement. In the case of public contracts that include EU funds, the application of these criteria is becoming mandatory and an important part of the contracting procedure.⁵⁸

It was estimated that in 2002 the total value of public procurement in the EU amounted up to 1 500 billion Euros (16% of EU GDP). After Enlargement in 2004 this amount will surely have increased by an important part. The EU directive 2004/18 on public procurement ensures a SME quota for public procurement above a certain threshold. Tenders falling into this criterion were estimated in 2005 to be 16% of the total value of public procurement in the EU and SMEs secured 42% of this value that corresponds to 62% of all contracts. The median value of contracts awarded between 2002 and 2005 was in the range of 310 – 360 thousand Euros.⁵⁹

Mircoenterprises share of public procurement amounted to 7% while small enterprises secured 11% and medium enterprises’ share was 23%. The share of micro enterprises was obviously larger for contracts with lower values (20% for contracts below 100 thousand Euros) and decreased proportionally the higher the value of the contract (4% for contracts above 6 million Euros). Small enterprises also secure most contracts in the segment below 100 thousand Euros with a share of 31% as for medium enterprises; the latter have their largest share in the segments 500 thousand to 2 million with 25% share of the value of public contracts awarded.⁶⁰

57 EU Commission working document (2008), European Code of Best Practices facilitating access by SMEs to public procurement,

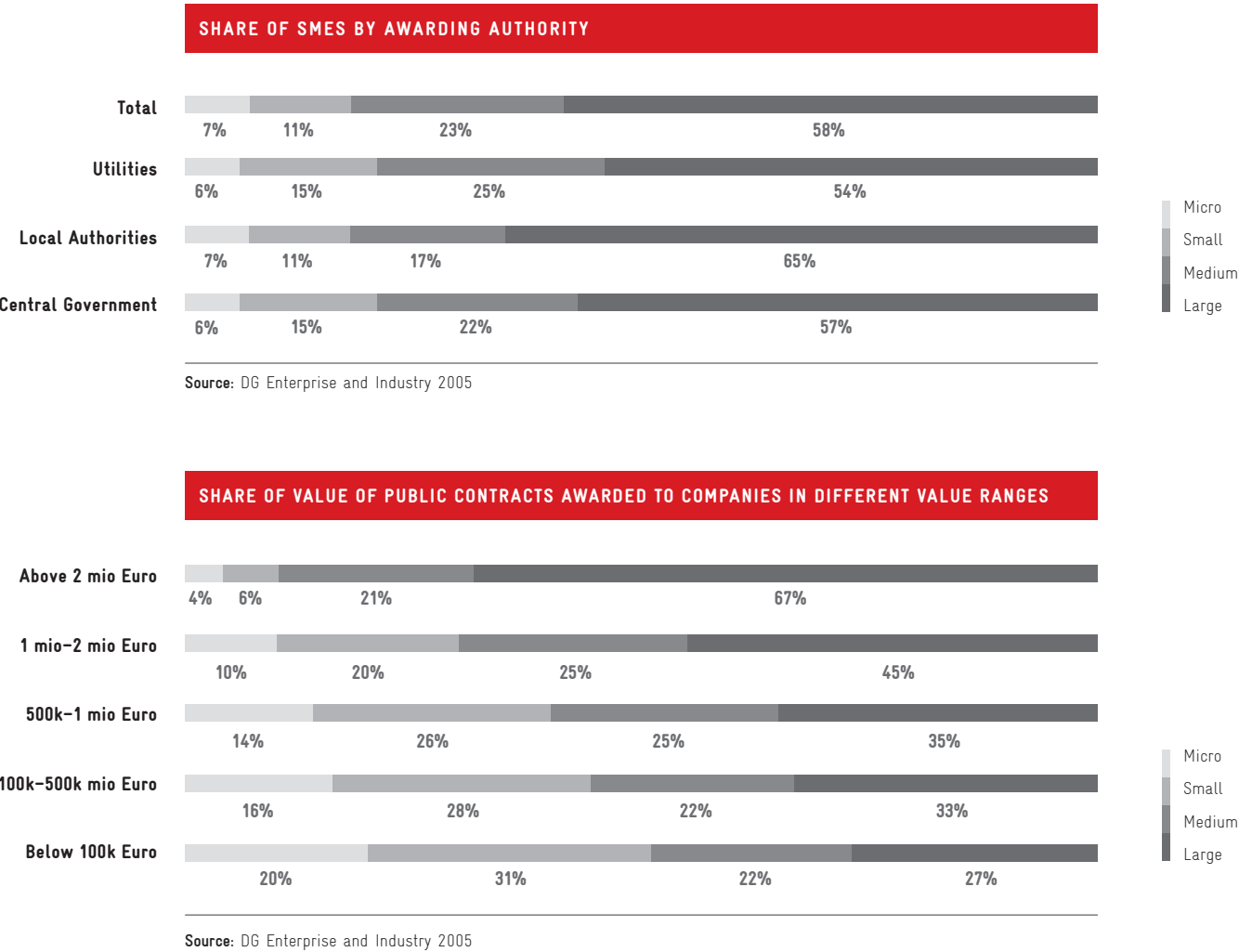
58 European Commission Communication (2008), Public procurement for a better environment

59 DG Enterprise and Industry (2006), Evaluation of SME Access to Public Procurement Markets in the EU

60 DG Enterprise and Industry (2006), Evaluation of SME Access to Public Procurement Markets in the EU

These figures underline the significance of this example to the Indian context where the share of SME supply to the Government is approximately 10% lower and microenterprises do not usually seem to easily access public procurement.

Figure 31 SME Share in Public Procurement in the EU



Feedback mechanism

The Small Business Act (SBA) fact sheets are statistical information tools designed as an input for assessing the business and policy environment for SMEs in Member States (hereinafter MS) and Partner Countries. They should be an interesting information source for policy makers in the Commission and in the individual countries, as well as for stakeholders and the public at large. The purpose of the fact sheets is to provide a snapshot of how the SME environment looks like in a given country, as well as how this environment has been changing over the medium term, using the prism of statistical data. This is done by grouping together a total of 88 indicators measuring a wide variety of different SME policy aspects under the ten principles of the SBA. Additionally, basic figures on the size and structure of the SME sector are presented, as well as information on recent developments in the field of SME-policy.

The fact sheets and the SBA radar charts are constructed in several steps. Each of the steps implied a number of important methodological decisions. In order to fully appreciate the findings of this exercise it

is important to explain the different steps one by one. Therefore, this methodological section is structured around the steps necessary to arrive at the ultimate results.

- ▲ The policy areas relevant for this exercise have to be identified. Appropriate indicators have to be found
- ▲ The indicators have to be grouped together under the existing SBA criteria (correlation, balance between areas)
- ▲ Sector averages have to be formed on the basis of the individual indicators in this section
- ▲ Finally, to compare the results of the normalisation, benchmarks have to be defined against which individual countries' performances can be assessed

The SBA country factsheets are developed as part of the SME Performance Review.

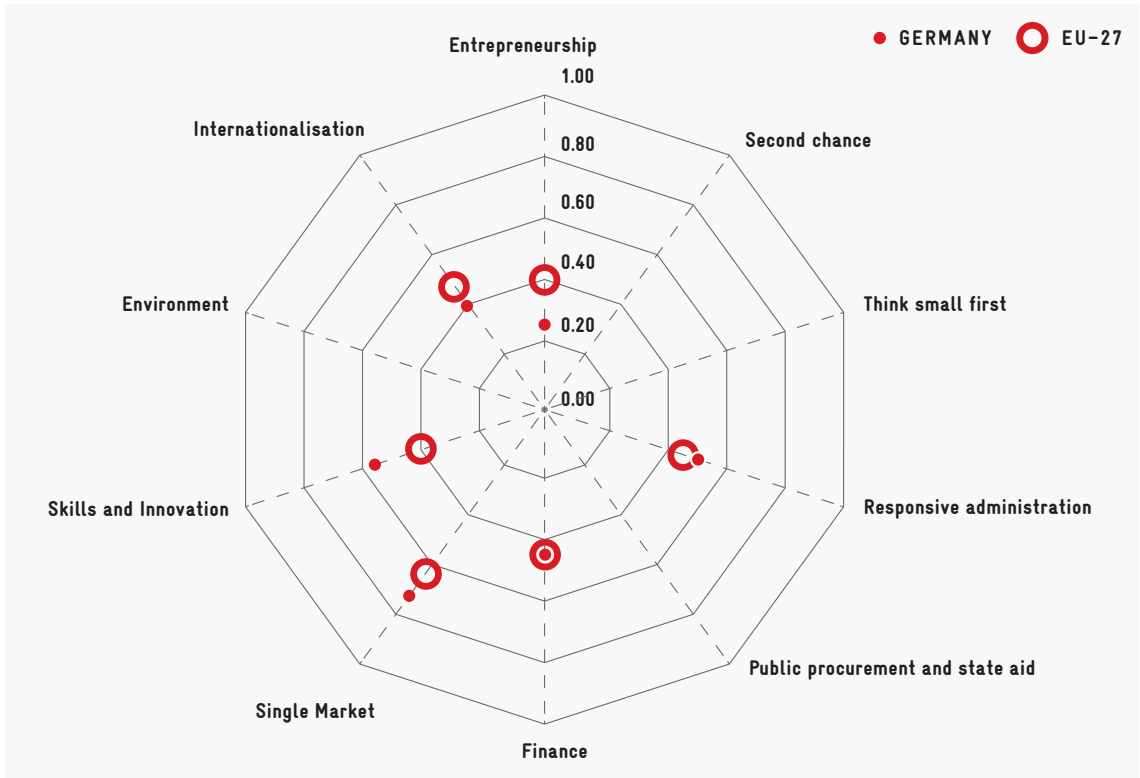
Figure 32 Screenshot SBA country Factsheets



SBA Factsheet of Greece

| NUMBER OF ENTERPRISES | | | | NUMBER OF PERSONS EMPLOYED | | | VALUE ADDED (MEUR) | | |
|-----------------------|---------|-------|---------------|----------------------------|-------|---------------|--------------------|-------|---------------|
| | Value | % | EU-26 average | Value | % | EU-24 average | Value | % | EU-26 average |
| Micro | 796.454 | 97,1% | 91,8% | 1.401.286 | 56,5% | 29,6% | 23.379 | 36,6% | 21,1% |
| Small | 21.235 | 2,6% | 6,9% | 392.668 | 15,8% | 20,6% | 11.845 | 18,5% | 19,0% |
| Medium | 2.496 | 0,3% | 1,1% | 240.199 | 9,7% | 16,8% | 9.279 | 14,5% | 17,8% |
| SMEs | 820.185 | 99,9% | 99,8% | 2.034.153 | 82,0% | 67,1% | 44.503 | 69,6% | 57,9% |
| Large | 462 | 0,1% | 0,2% | 447.752 | 18,0% | 32,9% | 19.387 | 30,3% | 42,1% |

Figure 33 Screenshot SBA Country Factsheets



Community Lisbon Programme

Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions of 10 November 2005, entitled "Implementing the Community Lisbon programme - Modern SME policy for growth and employment" [COM (2005) 551 final - Not published in the Official Journal].

The success of this new policy will depend on the effective involvement of all SME stakeholders, national, regional and European, public and private.

Specific action is proposed in five key areas:

Promoting entrepreneurship and skills. Promoting entrepreneurship, reducing the burden of risk linked to setting up and running a business, eliminating the negative effects linked to business failure, and providing

support for the successful transfer of businesses are all elements that contribute to a better exploitation of Europe's entrepreneurial potential. Special attention will be paid to promoting entrepreneurial skills, reducing the skills gaps and providing support to particular categories of entrepreneurs (women, young people, old people, and people from ethnic minorities).

Improving SMEs' access to markets. Better access to tenders on the public market, greater participation in the standardisation process, increased awareness of intellectual property rights, and support for inter-enterprise cooperation, particularly in border regions, will help SMEs to take full advantage of the opportunities provided by the internal market. SME access to international markets will also be facilitated.

Cutting red tape. It is vital to simplify the regulatory and administrative constraints weighing on SMEs. The principle of giving priority to small enterprises ("Think Small First") will be integrated across all EU policies. The interests of SMEs will systematically be taken into consideration when assessing the impact of Community legislation and when preparing forthcoming legislation. Derogations for SMEs can be developed for this purpose. Special attention will be given to the rules concerning state aid, SME involvement in Community programmes, value-added tax (VAT) and, at national level, direct taxation.

Improving SMEs' growth potential. Improving SMEs' access to finance, research, innovation and information and communication technologies (ICT) will contribute directly to unlocking their potential for growth. Financial support, initially provided at Community level by the Multiannual Programme for Enterprises and Entrepreneurship (2001-2006), has now been increased by the Competitiveness and Innovation Framework Programme (CIP) (2007-2013). It is also vital to strengthen SMEs' capacities for research and innovation, as continued innovation is essential for the sustainable development of SMEs. SME involvement in the 7th Research Framework Programme will thus be facilitated.

Strengthening dialogue and consultation with SME stakeholders. Enterprises, in particular SMEs, and the European Institutions suffer from a lack of information exchange. More systematic cooperation and consultation with stakeholders is an essential guideline of the new SME policy. When policies are being developed, SMEs will be consulted by the Commission's SME Envoy or the "SME Panel", a new quick-and-easy mechanism for consultation via the Euro Info Centres network. In addition, as from the end of 2005, "European Enterprise Awards" will reward measures that have proved to be effective in promoting entrepreneurship and thus contributed to the exchange of best practices. The Community business support networks will, for their part, continue to play an essential role in spreading information on the EU to businesses, particularly SMEs.

SME Envoy

The Envoy for Small and Medium-Sized Enterprises (SMEs) acts as the interface between the European Commission and the SME community. She listens to SMEs' concerns and represents their interests in the EU's law-making process. Not only does the Envoy give the Commission a human face in its dealings with European SMEs, she also stresses their importance for economic growth and job creation in Europe. The Commission is also encouraging Member States and regions to adopt similar measures, ensuring greater representation of SME interests at all levels of policy-making. To this end, it has sought to identify and share examples of effective SME consultation and involvement in policy-making.

Successful application of EU Directives and guidelines within specific Member States

In the case of services related to facilitating access to markets, the European Union's Enterprise Europe Network is positioned as central single point of contact for SMEs. It coordinates national service providers

such as chambers of commerce, export promotion agencies, etc. The legal framework for accessing global markets or also the internal market from within the European Union do not differ as they have been fixed within the Treaty of Rome and thus besides some specificities relating to specific sector related support programmes in the Member States country, institutional frameworks are more or less similar. Concerning access to public procurement by SMEs on the other hand, national legal and institutional frameworks still differ and only since the European Procurement Directive of 2004 the member states have been obliged to harmonise public procurement procedures for contracts with a value above the fixed European thresholds. The following subchapters present how four of the 27 EU Member States have implemented the EU Procurement Directive and have initiated reforms in order to make their public procurement more accessible to SMEs by simplifying procedures and lowering administrative burdens for small businesses to participate in public tenders. These examples underline the success of the high level regulation through the European Union. Especially the issues that are addressed in the code of conduct published by the EU and mentioned here above have been tackled by member states' initiatives.

Performance of EU Member States

We have selected a number of four countries on the basis of their performance in terms of access by SMEs to public performance. Furthermore we have selected a number of examples such as Germany because through its similar federal structure to India it provides a good example to how the country copes with the different institutional levels and their different approaches. Hungary has been chosen because of its performance in terms of SMEs' share of the national public procurement especially in terms of percentage of total value. Even though this has to be regarded in relationship to the total value spent on public procurement, the share is above the EU average. It also provides an example of a country that does not fall under the category of well developed economies such as the other examples. This fact is also underlined by its ranking in the World Bank doing Business indicator as well as its ranking in the Global Competitiveness report.

Table 31 Public procurement performance in 4 EU Member States

| Country | SMEs share in public procurement above EU threshold ⁶¹ | SME share in national public procurement | | World Bank doing Business indicator | Global Competitiveness report |
|---------|---|--|----------------|-------------------------------------|-------------------------------|
| | | Of total contracts | Of total value | | |
| FRANCE | 20.1% | 64% | 32% | 31 | 16 |
| UK | 19.3% | 50% | 16% | 5 | 13 |
| HUNGARY | 2.7% | 67% | 41% | 47 | 58 |
| GERMANY | 8.2% | N/A | N/A | 25 | 7 |

France

PLANNING

The national legislation relative to the government's public procurement is called "Code des Marches Publics (CMP)" the latter has the function of regulating the national public procurement procedures. Furthermore a central service for state procurement has been set up. Its mission is stated in the "Décret n° 2009-300 of 17. March 2009" and ensures increasing access to public procurement to SMEs.

61 p.45 European Commission (2007), Evaluation of SMEs access to procurement markets in the EU

62 Please see Result section for each country where sources are provided

In order to facilitate access to public procurement to SMEs, France has introduced a number of specifications to its CMP, namely

- That the allotment of large contracts into a number of small contracts becomes the rule for all public procurement contracts, facilitating access to SMEs that have not the capacity to tender for the whole contract. An exception to this rule can only be made if the allotment would lead to significant technological and economic inconveniences (article 10 CMP).
- The financial guarantees and solvency criteria that are required for an enterprise to tender to a specific call are decreased so that they are becoming more proportionate to the actual market standards and thus do not exclude SMEs from tendering based on exhaustive guarantee demands by the contracting administrations (article 45 CMP).
- In certain cases, it can be required to fix a maximum number of tendering enterprises. The amendment of the CMP permits contracting administrations to also fix a minimum number of SMEs to be admitted to the selection (article 60 CMP).
- Abolishment of exclusion criteria based on the lack of references within a specific market. Administrations are obliged to consider the tender and study the technical and professional capacities of such companies. This reduces the non-financial barrier to access to public procurement by SMEs significantly (article 52 CMP).
- The proportion of contract value to be sub-contracted to tiers such as SMEs can be fixed by the contracting administration.
- Since 2008 the delay of payment of public contracts has been fixed to 30 days in order to not discourage SMEs from taking on public contracts as this would imply to big of an investment for them.

EXECUTION

Besides the services provided by the European Institution, in France there are numerous institutions on the national level that provide assistance to SMEs to secure public procurement contracts.

Table 32 Selected SME Institutions France

| NAME | FUNCTIONALITY | SME SERVICES RELATED TO PUBLIC PROCUREMENT |
|---|---|---|
| OSEO | Financial Services to SMEs | Financial schemes to cover treasury short-ages for complex public contracts |
| Association for public services procurement | Harmonisation of public services demand and private sector capabilities | Training for understanding the needs of public services expressed in calls for tenders |
| www.marchespublicspme.fr | Website dedicated to SMEs and public procurement | Provision of information on access to public procurement and support services including a toolbox |

63 <http://www.marchespublicspme.com/news-part-des-pme-marches-publics-2006-oeap.html> (accessed August 2010)

| | | |
|------------------|--|--|
| Comite Richelieu | Association to enhance SMEs innovation and increase participation to high technology public procurement for the energy, defense and telecommunication sector | <p>1. Technology Axis SMEsearch programme including a technology development watch-</p> <p>2. Procurement Axis SMEtool prorgamme providing benchmarking information on the activities and demands of large national accounts.</p> <p>3. Legal Axis SMEadvocate programme provides legal services to SMEs</p> <p>4. Strategic Axis SMEwatch Programme providing SME with best practice examples of how to access the procurement market for large national accounts</p> |
|------------------|--|--|

RESULTS

In France, participation to the public procurement by SMEs amounts to approximately 64% in 2008. The share of SMEs in the total value of public procurement contracts is estimated to be at 32%.⁶³

The “Observatoire economique de l’achat public (OEAP)” was created in 2005 in order to oversee and observe the selection criteria applied by public entities for procurement contracts. Its aim is to ensure that con- tracts are given to the most economic offer. It is this organisation that also estimates the share of SMEs of public procurement contracts and reports on the share of SMEs of procurement to each ministry. Further- more the OEAP studies the distribution of the share of SME participation to public procurement between the national and the local administrations.

United Kingdom

PLANNING

The UK currently enhances its policy to create opportunities for SMEs and third sector organisations within the market of public procurement. Public procurement procedures in the UK are subject to EU law (Europe- an Directive on public procurement and Small Business Act) as well as on the national policy of Value for Money (VFM). This principle implies that contracting authorities are obliged to take into account all costs and benefits to society as a whole including the environmental and social benefits and costs, not simply those directly relevant to the purchaser when awarding contracts.

The UK government has established in 2008 an expert committee to examine what the Government could do to make it easier for Small and Medium Sized Enterprises (SMEs) to supply the public sector and to examine the practicality of setting an aspirational target for SMEs to win 30% of public sector business within the next five years. The Committee’s report “Accelerating the SME Economic Engine” was published in December 2008 and taken up by the Office of Government Commerce (OGC), the responsible policy body for public procurement in the UK. The recommendations are as follows; policy relating to the implementation of them is currently under review by the government.⁶⁴

⁶⁴ Office of Public Sector Information (2008), Accelerating the SME economic engine: through transparent, simple and strategic procurement, Office of Public Sector Information

- 1 Dematerialisation of contract opportunities above £20,000 across the whole public sector by 2010 on one single and easily accessible website [www.supply2.gov.uk];
- 2 Issue of all tender documentation electronically by 2010;
- 3 Details of contract awardees should be published online in a standard format within 48 days of contract signature, accessible via the single portal by 2010;
- 4 Flagging of tendering opportunities thought especially suitable for SMEs or consortia of SMEs during the advertising process and provision of strategic and detailed guidance for procuring authorities on assessing suitable contracts for flagging, based on risk, value and market maturity by the government;
- 5 Standardisation of qualification criteria that are not specific to a sector and incorporation of them within all pre-qualification questionnaires;
- 6 Consideration of all previous relevant experience of business not just public sector experiences;
- 7 Application of a flexible approach to particular accreditation schemes or standards for pre-qualification allowing businesses to provide information on the basis of references and similar accreditations qualifying them to apply for the specific contract;
- 8 Use of Innovation Procurement Plans setting out how procurement aligns with the overall commercial strategy, encourages innovation and gives advanced notice of long-term procurement plans;
- 9 Use of outcome-based specifications across the public sector;
- 10 Making subcontracting opportunities by prime contractors available through the single easily accessible website;
- 11 Contract management to ensure that SMEs and other firms acting as sub-contractors obtain contract conditions, including promptness of payment terms that are no worse than those applicable to the prime contractor;
- 12 The Committee recommends that all central government departments should report annually on the value of their contract spend with SMEs, creating a reliable single source of quantitative data which can be used to inform future policy decisions and evaluate the recommendations in this report.

These recommendations have partially already been taken up by the OGC and policies are currently being developed or under revision for increasing the implementation of them.

⁶⁴ Office of Public Sector Information (2008), Accelerating the SME economic engine: through transparent, simple and strategic procurement, Office of Public Sector Information

EXECUTION

In the UK following institutions provide assistance for SMEs to access public procurement contracts.

Table 33 Selected SME Institutions UK

| NAME | FUNCTIONALITY | SME SERVICES RELATED TO PUBLIC PROCUREMENT |
|--------------------------------------|---|--|
| Office of Government Commerce (OGC) | Responsible government body for regulating public procurement | Provision of guidelines for public authorities to implement recommendations for facilitating SMEs access to public procurement Organisation of training sessions for SMEs to better access public procurement contracts |
| www.supply2.gov.uk | Consolidated access to lower-value opportunities from across the UK public sector | Free of charge accessible website improving the visibility of public procurement opportunities |
| www.businesslink.gov.uk | Website dedicated to provide business development services to SMEs | Free of charge training sessions and information material on accessing public procurement and mastering the tendering procedures |
| Public Contracts Scotland Sell2Wales | Consolidate public procurement publications in Scotland and Wales | Free of charge access to contract opportunities in Scotland and Wales that flag opportunities of high interest for SMEs |

RESULTS

The UK public procurement sector spends approximately 175 GBP corresponding to 13% of UK GDP a year on public procurement. It is estimated that in 2005-2006 SMEs secured 16% of the value of these contracts.⁶⁵ At the moment the UK does not dispose of an official monitoring mechanism but it is one of the recommendation and policy initiatives currently under review. A "Procurement Survey of Contracts awarded to SMEs" by the Department of Trade and Industry has been conducted in 2005/2006 and has served as the basis, together with European surveys and evaluations to the development of the recommendations to the OGC.

Hungary

Hungary is selected as a Member State of the European Union, which is considered to be relatively successful in promotion of SMEs' contribution to public procurement. SMEs have a high importance in the Hungarian economy, representing 99.8 % of all enterprises.⁶⁶

PLANNING

On the planning level, the Ministry responsible for SME promotion is the Ministry of National Development and Economy, a legal successor of the Ministry of Transport and Economy. With reference to public procurement, it is an integral part of its SME policy, that SMEs are at no disadvantage compared to bigger companies.⁶⁷ An important planning activity has been the most recent amendment of Act CXXIX of 2003 on Public Procurement, which has been adopted in 2008, ie after the adoption of the Small Business Act. The

⁶⁵ British Chamber of Commerce (2009), Public Procurement Policy Brief
⁶⁶ Ministry of Economy and Transport, Strategy for the development of SMEs, p. 18.
⁶⁷ Ministry of Economy and Transport, Strategy for the development of SMEs, p. 61.

amendment introduces the so-called 'simple procedure'. Its main simplification is that three levels of procurement, which included the EU-threshold and two national levels is reduced to two. The simple procedure now applies to all contracts below the EU threshold. It is said that these adaptations, although the act applies to all entities, have been made to also take SMEs' interests into account.⁶⁸ With reference to SME-friendly aspects, the Hungarian public procurement procedure contains the following features.⁶⁹

- Notices have to be published in Hungarian.
- Tenders can be submitted in Hungarian.
- Large contracts must be broken down in smaller lots wherever this is technically and economically possible.
- If the contract is broken down, the selection criteria has to be applied according to the value of the individual lots instead of the total value.
- Contracting authorities may (for most contracts) chose to award to smaller units rather than larger enterprises at their own discretion.
- Some parts of the application may be submitted electronically.
- Contracting authorities are not allowed to ask for the submission of data, which they can easily and freely obtain otherwise.
- Contracting authorities have to carry out the payment within 30 days after performance. In case of default, the tenderer is entitled to collect the money directly from the authority's bank account.

EXECUTION

On the level of execution, public procurement matters are addressed by one central agency, the Public Procurement Council. It publishes the Public Procurement Bulletin, which contains the calls for tenders and any tender-relevant information and is published electronically three times a week.

(Primary information on Council only available in Hungarian)

Furthermore, Hungary is amongst the European Member States considered to be very strong in the collection of information on public tenders and SMEs' contribution. However, information can mainly be found on procedures above EU threshold, in which SMEs tend to participate less. This information – among other – is part of an SME database, the Ministry of National Development and Economy maintains. On the basis of this database, it runs an SME monitoring system, used to evaluate the support activities undertaken. The results of this monitoring are published annually as reports, which comprehensively address the state of Small and Medium sized businesses in Hungary and include a particular section on public procurement.⁷⁰

RESULTS

The contribution of Hungarian SMEs to the national public procurement in terms of percentage of total contracts awarded amounted to 67 % in 2008, the share of SMEs in the total volume of contracts was at approximately 41%.⁷¹ To be noted is the fact that these figures include the procedures above the threshold, which triggers the application of EU law. The share of SMEs in simple procedures is not included, where information is said not to be available.⁷²

⁶⁸ Ministry for National Development and Economy (2008), SME Report, p. 75.
⁶⁹ See EU Commission (2008), Code of Best practice, p. 8; Ministry for National Development and Economy, SME Report, p. 78; GHK, Technopolis, Evaluation of SMEs' share in public procurement in EU, p. 72.
⁷⁰ http://www.ngm.gov.hu/en/our_tasks/sme/sme_policy; see also Ministry of Economy and Transport, Strategy for the development of SMEs, p. 100 et al.
⁷¹ p.89 European Commission (2007), Evaluation of SMEs access to procurement markets in the EU
⁷² Ministry for National Development and Economy (2008), SME Report, p. 78

Figure 34

| KEY PROCESSES ACCESS TO MARKET IN THE EU | | |
|--|---|---|
| Needs Assessment | The DGEI of the European Commission assesses the needs of SMEs and the challenging they face to access the internal and global markets and through directives such as the Small Business Act sets a high level pan-European strategy for SME promotion | |
| Targeting | The Executive Agency for Entrepreneurship and Competitiveness develops a framework that allows addressing the specific needs of SMEs in relation to market access that integrates existing member states initiatives and institutions with the same purpose | |
| Selection of Delivery Channel | The Enterprise Europe Network coordinates and streamlines the services delivered to SMEs to facilitate access to the internal as well as global market. It provided the skill sets and conducts awareness raising activities | |
| | Member States' SME service providers such as national chambers of commerce, export agencies, development banks, etc deliver directly the services to SMEs under the same format that has been set by the Enterprise Europe Network | European Business Centers in global markets provide services directly to SMEs |
| Monitoring | Monitoring is conducted externally on a number of surveys such as Eurobarometer or the annual SME Performance Survey | |
| Evaluation | Implementation evaluation is conducted on various levels within the European Institutions through the monitoring of policy implementation, the evaluation of implementation effects based on a set of indicators within the European directives | |

SME Services

Table 34 Key SME services provided by EU

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------------------------|---|---|---|
| OVER-ARCHING POLICY DIRECTION | Role of the state in SME development and promotion | <p>Charter for Small Enterprises calls on members states to take action to support and encourage small businesses.</p> <p>Implementing the Community Lisbon Programme – Modern SME Policy for Growth and Employment, 2005 proposes specific in five key areas:</p> <ul style="list-style-type: none">• Promoting entrepreneurship and skills• Improving SMEs' access to markets• Cutting red tape• Improving SMEs' growth potential through access to finance, research, innovation and information and communication technologies• Strengthening dialogue and consultation with SME stakeholders | <ul style="list-style-type: none">• European Council (high-level policies)• European Commission– Department of Enterprise and Industry• Member states, e.g., UK Department for Business, Innovation and Skills (government ministry) and the Small Business Services (executive agency of the department) |
| | Respective roles of federal- and state-level institutions (in a decentralised system) | <p>Much of the policy environment for SMEs is determined under the competence of member states. The role of the EC is to:</p> <ul style="list-style-type: none">• Promote good practice through fixing European guidelines for achieving specific goals within a defined timeframe, e.g., through best methodology (i.e. preparatory analysis and benchmarking) in specific areas such as training for entrepreneurship• Provide some direct support, e.g., through structural funds, i.e., national and regional programmes co-financed by the EC which lay an emphasis on SME development | |
| | | <p>Member states:</p> <ul style="list-style-type: none">• Translate European guidelines into national policies | |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|------------------|--|---|
| NEEDS / ISSUES IDENTIFIED BY TASK FORCE REPORT | Access to credit | <p>Information and dissemination of best practice:</p> <p>Facilitated Code of Conduct for credit institutions and SMEs</p> <ul style="list-style-type: none">Facilitated round table discussions between bankers and SMEs to strengthen their mutual understanding, discuss good practices and pinpoint SMEs' specific problemsReport on best practices in micro-credit aims to disseminate best practice across EuropeApplication of best methodology to SME loan guarantee schemes <p>Financial instruments targeted at the financing gap in the early stage of SME development delivered to SMEs through financial intermediaries. Instruments are:</p> <ul style="list-style-type: none">SME Guarantee Facility – provides guarantees to banks to cover SME loans and additional guarantees to national and regional guarantee institutionsEuropean Technology Facility (ETF) Start-up Scheme – provides equity to venture capital funds making early-stage investments in SMEsSeed Capital Action – supports the recruitment of specialised staff by seed capital fundsGlobal loans provided to EU partner intermediary institutions | <ul style="list-style-type: none">European Commission–Department of Enterprise and IndustryEuropean Investment FundEuropean Investment Bank |
| | Marketing | <p>General:</p> <ul style="list-style-type: none">European Small Business Portal provides advice and assistance to SMEs to position themselves in European markets, e.g., links to potential trade partners and investment opportunities <p>Government procurement:</p> <ul style="list-style-type: none">Information for SMEs on tenders on the public marketAccess to global markets:Database on technical barriers to tradeAutomatic alert system via e-mail alerting exporting SMES of possible modifications of product-related regulations in the countries of destination | <ul style="list-style-type: none">European Small Business Portal |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------|--|---|--|
| | Infrastructure, technology and skill development | <p>Infrastructure–eCommerce</p> <ul style="list-style-type: none">European eBusiness Support Network for SMEs brings together information on policy initiativesWorkshops to exchange best practice <p>Technology</p> <ul style="list-style-type: none">Competitiveness and Innovation Framework Programme (CIP) (2007–13)⁷³ provides financial support to SMEs for technology developmentSME involvement in the 7th Research Framework Programme⁷⁴ with a target for allocation of research funds to SMEsInnovation Relay Centres –partly funded by the EU and partly by member states; their role is to encourage innovation and trans-national technological cooperation <p>Skill development</p> <ul style="list-style-type: none">Application of best methodology to education and training for entrepreneurship, business support servicesMaastricht Communiqué provides recommendations on targets for vocational trainingLeonardo da Vinci programme co-finances pan-European projects to develop innovative training solutions targeted at SMEs | <ul style="list-style-type: none">European Small Business PortalEuropean Commission – Department of Enterprise and Industry |
| | Rehabilitation of sick SMEs and speedy exit procedures for non-viable SMEs | <ul style="list-style-type: none">EC guidelines on state aid for rescuing and restructuring firms in difficulties (which generally imposes strict limits and conditions on such aid) apply less severe restrictions on SMEs than on large enterprises | <ul style="list-style-type: none">European Commission – Department of Enterprise and Industry |
| | Complex labour laws | <ul style="list-style-type: none">Application of the principle of giving priority to small enterprises (Think Small First) is integrated across all EU policies, with the interests of SMEs systematically taken into consideration when assessing the impact of community legislation and when preparing forthcoming legislation | <ul style="list-style-type: none">European Commission – Department of Education and Training |

73 <http://ec.europa.eu/cip/> | 74 http://cordis.europa.eu/ip7/home_en.html

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|---|--|---|
| KEY EMERGING THEMES IN SME DEVELOPMENT PRACTICE AND LITERATURE | Taxation policy and administration | <ul style="list-style-type: none">• Application of the principle of giving priority to small enterprises (Think Small First) is integrated across all EU policies, with the interests of SMEs systematically taken into consideration when assessing the impact of community legislation and when preparing forthcoming legislation in relation to value-added tax (VAT) and, at national level, direct taxation | <ul style="list-style-type: none">• European Commission–Department of Enterprise and Industry |
| | Enabling environment/ legal and regulatory reform | <ul style="list-style-type: none">• Application of the principle of giving priority to small enterprises (Think Small First) is integrated across all EU policies, with the interests of SMEs systematically taken into consideration when assessing the impact of community legislation and when preparing forthcoming legislation. Tools used include Regulatory Impact Assessments and the Interactive Policy Making Initiative, which offer efficient facilities to assess the impact of SMEs within a specific policy field.• SME Envoy – key role is to screen EU policy and assess its effects on SMEs | <ul style="list-style-type: none">• European Commission–Department of Enterprise and Industry |
| | Market linkages (value chains, cluster development) | <ul style="list-style-type: none">• Application of best methodology to clusters and networks | |
| | Local and Regional Economic Development | <ul style="list-style-type: none">• EU structural funds are used for regional programmes co-financed by the EC which emphasise the role of SMEs in regional development | |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------|---------------------------------------|---|---|
| | Public-Private Dialogue | <p>Developing systematic cooperation and consultation with SMEs in policy development through:</p> <ul style="list-style-type: none">• SME Envoy–main interface with SME community, listen to concerns and consider specific interests and needs in EU programmes and policies in particular through the screening of EU policy and assessment of its effects on SMEs• SME Panel–a quick-and-easy mechanism for consultation via the Euro Info Centres network• European Small Business Portal – enables feedback to the EC on the effects of EC initiatives on SMEs. The network is based on partnerships with private sector organisations (e.g. chambers of commerce, banks) | <ul style="list-style-type: none">• European Commission–Department of Enterprise and Industry• European Small Business Portal• European Small Business Portal |
| | Women in business | <ul style="list-style-type: none">• Hosting European Forum (2003) to identify support measures for female entrepreneurs• Application of best methodology to the promotion of entrepreneurship amongst women• Women's entrepreneurship portal provides links to websites of women entrepreneurs representative organisations, networks, projects and events | <ul style="list-style-type: none">• European Commission – Department of Enterprise and Industry• European Small Business Portal⁷⁵ |
| | M&E (measuring and reporting results) | <ul style="list-style-type: none">• Development of a list of general indicators based on EU member practices under the BEST (Business Environment Simplification Task Force) Action Plan to Promote Entrepreneurship and Competitiveness• European Enterprise Awards reward measures that have proved to be effective in promoting entrepreneurship | <ul style="list-style-type: none">• European Commission – Department of Enterprise and Industry |

75 http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/women/index_en.htm

Japan



Organisation Background

Japan's SME promotion strategy was first formulated with the former "SME Basic Law" which was enacted in 1963. The policies drafted within its purview were aimed at "rectifying the gaps between SMEs and large enterprises in terms of productivity".

The current promotional strategies/policies for SMEs in Japan are formulated mainly within the new SME Basic Law, introduced in 1999, which is based on the philosophy of "promoting diverse and vigorous growth and the development of independent SMEs".⁷⁶

Present SME strategies/policies include the following:

- Supporting self-help efforts for business innovation and start-ups (support for ambitious enterprises)
- Strengthening of the management base (enhancement of management resources)

- Facilitating apt responses by enterprise for environmental and other changes (providing the necessary safety net)
- Finance and taxation (common measures)⁷⁷

Measures resulting from SME policies

- Credit guarantee system for the issue of corporate bonds or privately-placed bonds by SMEs
- Fund raising assistance through the establishment of options for SMEs to raise capital from markets
- Establishment of support centres that provide one-stop assistance in terms of both funds and advisory services
- Formation of a revised "SME Management Consultant system" in the area of human resource development
- Measures to prevent chain-reaction bankruptcies
- Revision of the Bankruptcy Law and introduction of a new corporate rehabilitation scheme
- Measures to decrease the tax burden on SMEs

Japan has a decentralised SME support structure, with programmes and schemes being implemented at regional, prefectural and national level.

SME policies are formulated by the Ministry of Employment, Trade and Industry (METI) in consultation with the SME Policy-Making Council. The council was established under Article 26 of the "Basic SME Law" and consists of 30 members appointed by METI; it essentially serves as an advisory body to METI. All policies related to providing credit to SMEs are formulated by the Ministry of Finance, which is advised by the Financial Services Agency (FSA).

The Small and Medium Enterprise Agency (SMEA) is mandated to coordinate the implementation of support schemes and to dispense funds to SME government organisations (excluding SME financing schemes for which FSA is mandated). The main service delivery agencies are the numerous SME support centres that act as one-stop shops for all SME support programmes.⁷⁸

The Organisation for Small and Medium Enterprises and Regional Innovation (SMRJ) is an agency independent of SMEA and with a specific focus on fostering innovation amongst SMEs. It is this agency that provides most of the services related to skill development, infrastructure and technology for SMEs.

Skill development

In Japan, SME policies are initiated by METI and implemented in a parallel manner by prefectural and regional SME support centres as well as the implementing agencies of SMEA. SMRJ conducts most of the support activities aimed at SME skill development. Nevertheless, as this subject is closely linked to the policy field education, a number of initiatives require mutual ownership, for example, from the Ministry of Education or the Ministry of Labour.

The Institute for Small Business Management and Technology, operated by SMRJ, takes the lead in providing direct skill development services, mainly through its nine SME Universities and 11 branch offices. These SME Universities primarily provide skill development programmes related to managing SMEs rather than concentrating on any shop floor or production-related skills.

⁷⁶ Website SME Agency: http://www.chusho.meti.go.jp/sme_english/outline/01/01_06.html
http://www.chusho.meti.go.jp/sme_english/outline/08/01_04.html (accessed July 2010)

⁷⁷ Website SME Agency: http://www.chusho.meti.go.jp/sme_english/outline/01/01_06.html (accessed July 2010)

⁷⁸ Tambunan & Hillebrand (2001), Institutional Set-Up For Sme Policy Design And Implementation Case Study Japan

Vocational Training

Over the years, Japan has developed a sophisticated system of vocational training aimed at providing a skilled workforce to SMEs as well as to large corporations. Its aim is not only to provide mechanisms to address social issues, but to build a link to the “world of work” based on a strategy of plan, do, check, and action. The main institution involved in the implementation of this strategy is the Central Association for Vocational Ability Development. A further key component of the vocational training system is the Institute of Vocational Training established in 1961 by the Ministry of Labour (now called the Ministry of Health, Labour, and Welfare) to conduct vocational research, develop curricula and produce textbooks.

The vocational training institutions allow students to opt out of the formal education system and acquire more specialised skills. Students between the ages of 16 and 20 who have not completed primary school can enrol in a Continuing Vocational School, which prepares them for semi-skilled jobs. Students who have graduated junior high school or high school can enrol in one of 44 Vocational Training Programmes which will qualify them for a skilled job. Graduates of this programme may also re-enter the formal education system track. High school students pursuing positions as technicians can enrol in one of the 62 Technical Colleges consisting of three years of senior high school education plus two years of junior college education. All of these institutions ensure that the Japanese workforce maintains a skill level that corresponds to the demands of enterprises.

The Japanese government has developed a set of policies and programmes targeted at human resource development within SMEs.

METI holds the planning function within the institutional framework for SME promotion in Japan. A number of implementing agencies then deliver the programmes to SMEs. The latter are coordinated by the national SME Agency, which also allocates the budget. On a parallel level, SME support centres that are directly linked to the prefectures provide one-stop shop services to SMEs and thus also act as delivery channels of the METI promotion programmes. They provide a bridge to the specialised implementing agencies coordinated by SMEA.

The plans developed by the Japanese government include the following:

- Shingeneki challenge plan for active working post retirement (fiscal 2009 budget: Yen 1.97 billion)
This plan was established to foster the continued effort for post-retirement workers to utilise their techniques and know-how to support SMEs.
- Programme to support manufacturing personnel in SMEs (fiscal 2009 budget: Yen 380 million)
This programme aims to ensure appropriate levels of human resource development and recruitment in SMEs. It provides support to enhance real work-related education programmes, such as apprenticeships, through the collaboration of the industrial sector, technical high schools and the government of each region. Education initiatives are taken for the dissemination of the curriculum for training junior engineers in SMEs that use the facilities and educational know-how of the technical schools and other institutions.
- Tax incentives for investments in personnel (taxation scheme)
The tax incentive has the goal of facilitating personnel investment in SMEs.
- Programme for the Industry–Academia Partnership for Human Resource Development (fiscal 2009 budget: Yen 1.51 billion)

Enhanced industry–academia collaboration aims to develop and test human resource development programmes based on the outcome of consideration in the Industry–Academia Partnership for Human Resource Development. New projects that promise to link multiple universities and other institutions in the region will be developed throughout.

- Programme for developing a system of nurturing and evaluating private coordinators for career education (fiscal 2009 budget: Yen 120 million)
This programme aims at nurturing and evaluating coordinators who link schools to companies, with a view to realising integrated regional career education, including real-work experience at local SMEs, that utilises the ideas and experience of the private sector.
- Human resource development programme at the Institute for Small Business Management and Technology (SMRJ subsidy program)
Training programmes for improving the capacity of SME supporters will be continued at the Institute for Small Business Management and Technology in tandem with other training programmes including seminars for SME managers (Continuation).
- Regional employment measures⁷⁹
In order to support additional employment generation in industries crucial for regional job creation, the SME Startup Subsidy for Regional Revitalisation (for startup costs and hiring costs) will be provided to the proprietors starting businesses in the said industries in regions with sluggish employment recovery prospects.

Infrastructure

Generally, Japan disposes of a ministry specifically dedicated to the development and maintenance of high-level infrastructure, the Ministry of Land, Infrastructure, Transport and Tourism (MITI). One of its goals is to realise a globally competitive society that is sustainable with stable growth. It maintains 15 specific bureaus, of which 11 are dedicated to the development of particular fields of infrastructure, such as the Land and Water Bureau, the Road Bureau, the Railway Bureau or the City and Regional Development Bureau.⁸⁰

Japan previously had the Japan Regional Development Corporation, which dealt with facility and land development. This corporation merged with SMRJ when the latter was created, which resulted in the responsibility for infrastructure development moving to SMRJ. To fulfil this task, SMRJ has a department specifically in charge of infrastructural matters, the Industrial Site Department.

Through its Industrial Site Department, SMRJ manages 58 industrial sites across Japan that offer the required facilities, such as water, power, roads and parkland, and at the same time try to ensure compliance with environmental concerns. In addition, SMRJ provides financial assistance to SMEs wanting to settle in these locations. For example, prices can be reduced by subdividing the individual lots and the periods of instalment can be extended up to 15 years in order to reduce the annual financial burden. Furthermore, financial subsidies and tax preferences are available. These assistances are gathered under “Preference Treatment Systems” run by both the national and the local governments.⁸¹

⁷⁹ Japan Small Business Research Institute (2009), White Paper for all government programmes mentioned in this section

⁸⁰ MITI brochure, p. 2 et al

⁸¹ <http://www.smrj.go.jp/utility/english/ovoa/010629.html>

SMRJ further enhances infrastructural upgrading and SME cluster building through upgrading infrastructure measures. These activities have the following five components:

- Support of SME clustering into industrial areas/districts
- Upgrading existing industrial clusters/areas
- Support of the establishment of common facilities within SME clusters
- Creation of new common facilities centres
- Provision of finance to the “third sector”, which are joint partnerships between local governments and enterprises that in turn create facilities for SMEs.

Technology

As is the case for the area of infrastructure, SMRJ is the main institution responsible for technology development. Amongst Japanese SMEs, innovation is often hindered by a lack of funds and suitable personnel. In addition, an inadequate management strategy is reported to be a weakness. Particularly with reference to the latter, the Japanese government encourages innovation by “rewarding” business innovation plans that SMEs have drawn up and by providing financial and tax-related support to realise these plans. Up until January 2009, 35,500 business plans have been approved.⁸²

On average, the percentage of SMEs engaged in R&D is 1.4%. In some industries, such as the manufacturing and ITC sector, the number of SMEs carrying out R&D is higher, reaching 5.4% and 6.9% respectively. It can be noted that Japanese SMEs collaborate to a large extent with external partners in the area of R&D. These partners are mainly customers and clients, universities and other research entities and other companies in the same industry. The government and public research institutions are also named as collaboration partners, taking up 22.1% of all partnerships, compared to 39% for clients and 30% for universities.⁸³

On the planning level of IT development, METI policy is influenced by the IT Advisory Council, which was launched in 2000 to give policy advice in this area and consists of academics and representatives of the private sector and the government. The advisory council recommended that Japan’s IT policies should stand on four pillars, namely the development of a high-speed network and strengthening eGovernance, eCommerce and eLearning. METI has adopted and integrated these recommendations into its policies and agreed to support their implementation.

Organisation Structure

Figure 35 Organisation structure of SMRJ

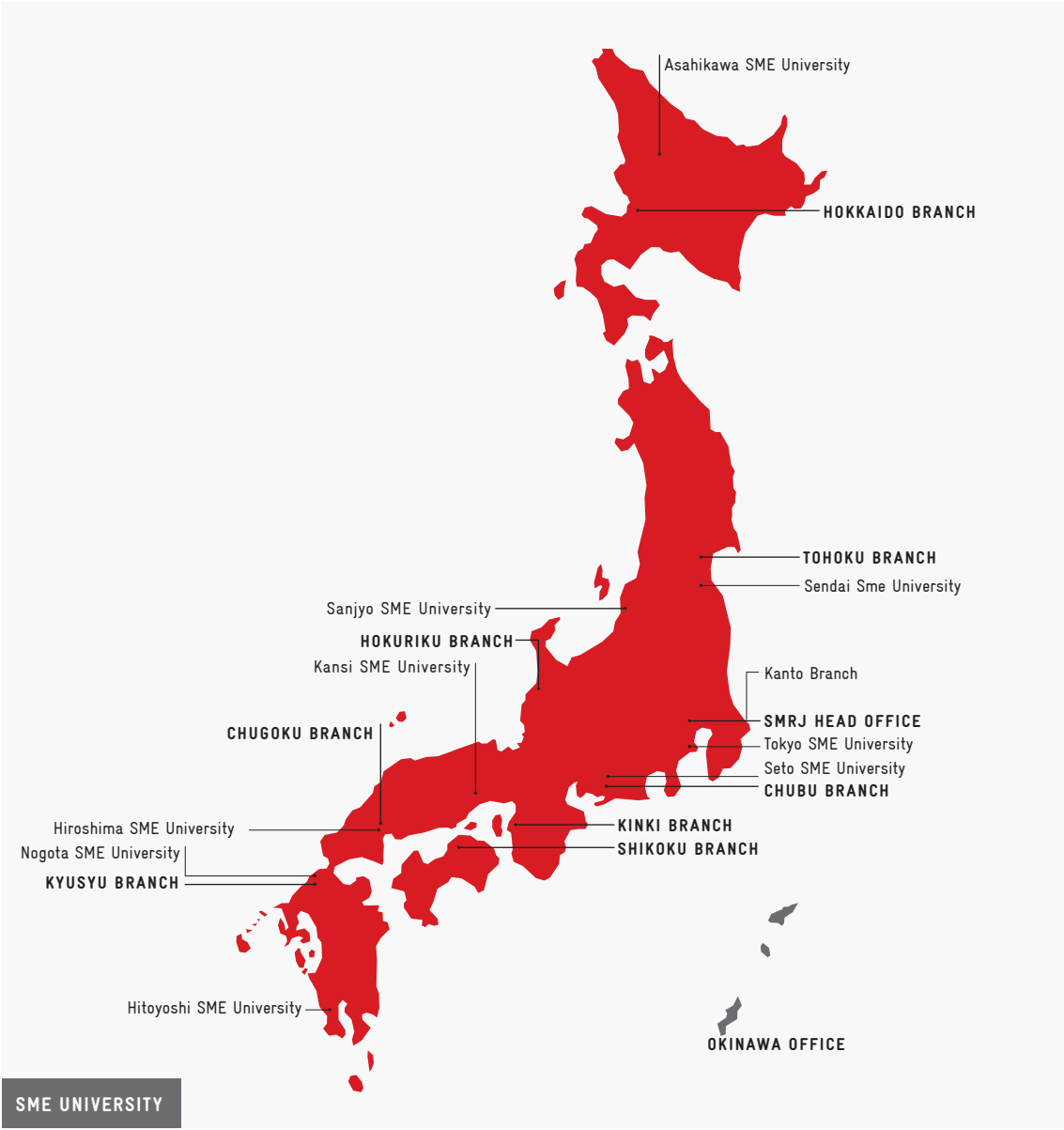


82 White Paper 2009, p. 52. | 83 White Paper 2009, p. 68.

Skill Development

The Institute for Small Business Management and Technology (institutes located in Tokyo, Asahikawa, Sendai, Sanjo, Seto, Kansai, Hiroshima, Nogata and Hitoyoshi), operated by the Japan Small and Medium Enterprise Corporation (JASMEC), plays a central role in the implementation of the government’s skill development programmes, mainly through its SME universities.

Figure 36 Map of SME Universities across Japan



It conducts training programmes for all types of beneficiaries connected to SMEs. Firstly, it operates training programmes for managers, administrators and successors of SMEs. With reference to entrepreneur training, it has conducted the Future Managers of SMEs course 25 times, with the number of participants exceeding 500. Many former participants are now active SME managers and executives. In addition, it provides a high level of practical training to those who assist SMEs. The training not only offers formal lectures, but also focuses on practical training, exercises and group debates, with the overall purpose of improving participants’ problem-solving ability.

Training programmes for personnel from prefectural governments and staff members from the three main commercial organisations (Chamber of Commerce and Industry, Commerce and Industry Associations, and National Federation of Small Business Associations) are also conducted at the Tokyo Institute for Small Business Management and Technology.

The courses, schedule and prices are developed and fixed every April. The contents of the courses offered by each campus can be viewed via university-produced pamphlets or the homepage of each campus of the institute. The Tokyo campus study period is for one year (with intakes in April and September). The institute also offers online learning, using the Internet to create an eLearning website. The institute has also provided technology and management support courses. Courses can be funded by a participant's company or by the participants themselves.

To ensure that the government policy is implemented, course fees are kept at a moderate level. Furthermore, SMEs can obtain financial assistance for sending participants to the institute.

- **Financial Assistance for Companies Promoting Career Building:** There is financial assistance available for companies who send their employees to The Institute for Small Business Management and Technology. This subsidy is organised and paid by the Employment and Human Resources Development Organisation of Japan.
- **Local Municipal Assistance**
- **Taxation for Promoting Human Resource Investment:** For SMEs that actively tackle the training of employees and individual proprietors, a certain portion of the training cost is taken as a tax write-off from corporate tax and income tax.

Furthermore, all the prefectures and city governments of the 12 major cities conduct a basic training programme for managers of SMEs as a part of the human resource development programme for SMEs.

Technology

As SMRJ is the operational arm of SMEA, the central agency responsible for SME-related matters, it carries out most technology support measures with reference to SMEs.

SMRJ supports R&D activities amongst manufacturing SMEs by providing low-interest loans or exemptions from patent fees to innovative SMEs who have presented an R&D master plan. This plan must not only detail the work that will be done to achieve specified results, but must also name the business partnerships which the SME intends to utilise. Furthermore, via its New Business Fields projects, it encourages R&D investments by venture capital investment funds, on which more and more SMEs now rely. These projects support funds that are developed at local level by regional governments or regional financial institutions in collaboration with universities or other companies and which focus on utilising local resources or make use of unique local characteristics.

SMRJ also runs an innovation-related programme on behalf of the Japan Patent Office, the Strategic Use of Intellectual Property for Local SMEs Programme. Under this scheme, SMRJ examines and strategically advises selected SMEs on the use of intellectual property. Based on the results of such examination, it publishes manuals which are made available to the public. To further enhance industry internal capacity building, SMRJ encourages business matching between downstream companies with market needs and upstream SME clusters with technological deficiencies.

Table 35 Key SME services provided by Japan

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-----------------|---|---|---|
| NEEDS ADDRESSED | Access to credit | <ul style="list-style-type: none">• Supply of long term capital at fixed interest rates• Small, unsecured loans for very small businesses• Loans for cooperatives• Loan guarantees for SMEs• Equity finance and business support services• Investment funds for SMEs from SMRJ in partnership with private institutions to provide tailored financing coupled with in-depth management assistance• SMEA works with the Financial Services Agency to encourage private financial institutions to lend to SMEs | <ul style="list-style-type: none">• Japan Finance Corporation for SMEs• National Life Finance Corporation• Shoko Chukin Bank• Credit Guarantee Association/Japan Finance Corporation for SMEs then backs these guarantees• Small Business Investment Company• SMRJ• Financial Services Agency |
| | Marketing (Government procurement and access to global markets) | <p>Government Procurement:</p> <ul style="list-style-type: none">• Public procurement targets for SME contract awards set and publicised <p>Access to global markets:</p> <ul style="list-style-type: none">• Focus on using IT to access global markets – technical support provided by SMRJ and SME Business Support Centres• Provision of advice and information on global markets• Common Internet database for Japanese and overseas firms to register to facilitate business linkages and strategic collaboration | <ul style="list-style-type: none">• SMEA• SMRJ/SME Business Support Centres• SMEA |
| | Infrastructure, technology and skill development | <p>Technology:</p> <ul style="list-style-type: none">• Promotion of innovation is a key area of Japan's SME development policy• Highly decentralised one-stop support for SME innovation at the regional/local level provided by network of experts in innovation (from academia, public and private sectors)• Continuous and onsite professional assistance from specialists including patent attorneys and consulting engineers• Support to joint ventures between SMEs, client companies and universities• Small Business Innovation Research system – government provides subsidies for R&D | <ul style="list-style-type: none">• SMRJ• SME Business Support Centres• SMEA |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------|--|--|--|
| | Infrastructure, technology and skill development | <p>Skill development: provision of consistent and long term support to individual SMEs</p> <ul style="list-style-type: none">• Over-the-counter consultations• Onsite professional assistance from full-time specialists and hired consultants (management consultants, accountants, lawyers, patent attorneys, consulting engineers etc)• Human resource training programmes especially for SME executives, management, technicians and SME support staff | <ul style="list-style-type: none">• SME Business Support Centres• SMRJ in partnership with Institute for Small Business Management and Technology |

South Korea

INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

| | | | |
|--|--|---------|--|
| Ministry of Finance | Presidential Commission on Small and Medium Enterprises (government agency, under the President's supervision) <ul style="list-style-type: none">• Coordination, consultation and evaluation of SME policies | | Presidential Regulatory Reform Committee (government committee under the President's supervision) <ul style="list-style-type: none">• Reform legal and regulatory framework for SMEs |
| | Ministry of Knowledge Economy (MoKE) (previously the Ministry of Commerce, Industry and Energy) <ul style="list-style-type: none">• Basic SME policy-making | SUPPORT | Korea Small Business Institute (KOSBI) <ul style="list-style-type: none">• Research on SME-related issues |
| Small and Medium Business Corporation (SBC) <ul style="list-style-type: none">• Direct loans to SMEs | Small and Medium Business Association (SMBA) (government agency – reports to Prime Minister and MoKE) <ul style="list-style-type: none">• SME policy development– planning action programmes and more detailed policies for SMEs• Direct assistance to SMEs e.g. start-up, financing, marketing, technology | | SME Training Centre <ul style="list-style-type: none">• Training services for SME yees |
| | Regional Offices of SMBA <ul style="list-style-type: none">• Reviews project proposals• Conducts on-site visits to applicants | | |

Organisation Background

South Korea has a central government agency, the Small and Medium Business Administration (SMBA), dealing with all matters of SME promotion and particularly acting as a policy-making body. SMBA is the central South Korean authority of SME development, affiliated to the Ministry of Knowledge and Economy (MoKE) and presided over by the Presidential Commission on Small and Medium Enterprises. It develops and implements promotion policies and coordinates their implementation through the Small and Medium Business Corporation (SBC), a non-profit government funded organisation which is the general operational body.

SBC itself undertakes tangible measures, such as the provision of small- and medium-scale financing and training facilities. In addition, it interacts with institutions that specialise in particular areas of SME promotion; these institutions then carry out government policies in order to achieve the required measures. On a local level, both SMBA and SBC maintain regional offices to coordinate SME promotion and provide direct assistance to SMEs in the respective region/city.

Promotion policies follow two streams of action. First, a strong emphasis of the government's strategy lies on supporting business start-up and entrepreneurship; this support is expressed through a wide range of measures, which include but are not limited to:

- ▲ Entrepreneurial training at universities
- ▲ Specific financial start-up support
- ▲ Certification schemes for "venture businesses"

The second stream is the supporting of already operating businesses in the areas of R&D/technology, financing, human resources and marketing. Korean SME support places strong focus on supporting technologically innovative firms. Examples of measures targeted at these enterprises are:

- ▲ R&D institutes at universities
- ▲ R&D subsidies
- ▲ Certification schemes for "innovative businesses"

Technology

With reference to technology support, the Korean support framework approaches SMEs' weaknesses from different angles. First, it tries to create an innovation-friendly environment and encourages R&D by creating a certification system for innovative SMEs. These SMEs can obtain InnoBiz or Venture Company certification when they fulfil certain criteria, thereby gaining a unique selling point in comparison to other SMEs. Second, it encourages linkages between SMEs and universities/research institutes. It selects SMEs and research entities for particular R&D tasks and financially supports them.

Last, it tackles the problem of insufficient funds for technological development. On one hand, SMBA operates several funding programmes, which are aimed at different aspects of technology development. These funding schemes include the support of "excellent technology development" by joint projects between SMEs and public research institutes. Furthermore, SMBA provides funds for the development of product R&D under the condition that the products are sold to large companies and public organisations. Up to 750 million KRW in zero-interest R&D funds can be given to the SME unit which develops a technology and is able to successfully sell it to another enterprise (public or private) for which it has been developed, thus providing the unit with a direct sales channel. However, it is not just manufacturing-related R&D activities that are being supported: SMBA also funds R&D for the service sector through its "SME Service R&D Support Tasks".⁸⁸

88 SMBA Annual Report 2009, p. 19 et al

On the other hand, the Korea Technology Finance Corporation (KOTEC) runs a technology guarantee service. Various technology guarantee schemes were set up with the purpose of covering the losses incurred when borrowers defaulted on loans. The purpose of such schemes is also to encourage financial institutions to lend to SMEs which have viable projects and good prospects of success but which are unable to provide adequate collateral or which do not have a suitable record of financial transactions to prove that they are creditworthy.

The general responsibility for planning lies with SMBA. In 2009, SMBA adopted a five-year plan to promote globally competitive SMEs through the enhancement of technological competitiveness and to maximise R&D investment efficiency in accordance with a “choice and concentration” strategy. Under the plan, SMBA intends:

- ▲ To increase SME R&D investment, allocate investments strategically and expand demand-oriented technology innovation infrastructure
- ▲ To focus choice and concentration on promising future growth fields, green technologies, new growth engines and knowledge services
- ▲ To strengthen custom-tailored support in terms of growth stage and innovation capability for global leader SMEs, innovative SMEs and SMEs in the initial start-up stage

▲ Skill Development

Being the central agency of SME promotion, SMBA is also the main body in charge of skill development measures. In implementing these measures, it is supported by SBC.

On the planning level, again SMBA is the main policy-making body. It addresses the problem of the lack of a trained workforce through several schemes that offer preferential treatment to SME employees, for example, the right to purchase public housing ahead of others, the organisation of internships and field trips to SMEs for college students to help change their perception of these enterprises as well as the provision of training to unemployed youth according to the employment needs expressed by SMEs. In addition, technical experts on military duty are sent to SMEs in need of expert professionals. SMBA has further set up an SME Training Centre as a public education institute.

SMBA is additionally planning to implement a programme on custom-tailored manpower cultivation. It is supposed to evaluate and assess SMEs’ HR needs and relate them to educational courses to be carried out at high schools and colleges. Students will be employed by the participating SMEs immediately after graduation, thus providing them with the prospect of employment and the SMEs with the required manpower. The students will also receive further benefits such as delayed entry into military service. SMBA covers expenses related to the purchase of training equipment as well as programme expenses related to the training.⁸⁹

89 SMBA Annual Report 2009, p. 15.

▲ ORGANISATION STRUCTURE

Figure 37 Organisational Structure SMBA

| ADMINISTRATOR | | | | | |
|---|---|-----------------------------------|----------------------------------|--|--|
| DEPUTY ADMINISTRATOR | | | | | |
| Planning & Coordination Bureau | Technology & Innovation Bureau | Business Startup & Venture Bureau | Micro-Enterprise Policy Bureau | Business Management Bureau | SME Policy Bureau |
| Planning and Budget Officer | Technology Policy Division | Venture Policy Division | Micro-Enterprise Policy Division | Finance Division | Policy Coordination Division |
| Creation and Innovation Officer | Technology Development Division | Venture Investment Division | Balanced Growth Division | Workforce Assistance Division | Ombudsman & Statistics Division |
| Regulatory Reform & Legal Affairs Officer | Technology Cooperation & Testing Division | Start-up Promotion Division | Market Improvement Division | Overseas Marketing Division | Business Partnership & Cooperatives Division |
| Customer & Information Management Officer | Management & Process Innovation Division | Business Restructing Division | Service SME Promotion Division | Public Purchasing & Marketing Division | International Affairs Division |
| Emergency Planning Officer | | | | | |

SMBA has one head office and 11 Regional Small Medium Business Administrations across the country. At the head office, it maintains six bureaus, each with specific tasks, of which one is the Technology Innovation Bureau responsible for technology development.

KEY PROCESSES

▲ Technology

There are numerous institutions involved in executing SME promotion measures. The following text discusses those that are the most important with reference to technology development.

SMBA

Some schemes, such as the certification schemes, are implemented directly by SMBA. The process of these schemes is easy and very transparent. The SME unit can access the certification criteria online and run a self-diagnosis on whether it meets the criteria. After submitting the application, an onsite assessment of the company is carried out, after which it is classified and, in the case of criteria-compliance, issued a certificate.

KOTEC

KOTEC is the institution responsible for the implementation of the credit guarantee scheme. A potential borrower who cannot meet a bank's lending criteria, which usually means the borrower cannot provide satisfactory collateral, is referred by the bank to KOTEC. Staff members in branches carry out independent appraisals of the loan guarantee application to assess the borrower's creditworthiness, the use to which the loan is to be put, prospective ability to service the debt, and, above all, the superiority of technology. In most cases, the banks rely on KOTEC's investigation and approval for their lending decision. If the appraisal is successful, the borrower returns to the bank with a letter of guarantee issued by KOTEC and obtains the loan. The guarantee usually involves the payment of a guarantee fee whose amount depends on the size of the amount being guaranteed. The following figure depicts KOTEC's key operations:

Figure 38 Key operations of KOTEC

| CATEGORY | OUTLINE | |
|----------------------|--|---|
| Technology Guarantee | <ul style="list-style-type: none">Provides guarantess for various loans which technology firms including the new technology companies borrow from financial institutionsStopped providing new guarantees to companies that are not new technology businesses in August 2004 | |
| | Technology Startup Guarantee | Provides guarantees for the technology statr-ups with business record of five years or less since foundation |
| | Technology Innovation Guarantee | Provide guarantees for high-tech firms such as venture enterprise, Inno-Biz enterprises, firms engaging in the green industry, knowledge-based service industry, ten next-generation growth engine industries, and 6 future growth potential industries |
| | Technology Appraisal Guarantee | Provide guarantees for technologically outstanding companies through technology appraisal that values technologies and knowledges owned by SMEs |
| Technology Appraisal | <ul style="list-style-type: none">Appraisals based on future-oriented value including technological competency, marketability and business prospects. Utilized as technology financing tool for a variety of purposes | |
| | Technology value appraisal | Evaluates value that is or will be realized through the relevant technology |
| | Technology business validity appraisal | Evaluates the technology and business validity of companies that are seeking to commercialize a specific technology or idea, or attract investment for the relevant technology |
| | Technology Appraisal Guarantee | Provide guarantees for technologically outstanding companies through technology appraisal that values technologies and knowledges owned by SMEs |

Source: Annual Report 2009 KOTEC

TIPA

Another institution that is involved in technology development for SMEs is the Korean Technology and Information Promotion Agency for Small and Medium Enterprises (TIPA). TIPA is a specialised organisation created to support SMEs in the areas of technology development, SME management innovation and ICT promotion. Its functions include the following:

- Identify and analyse SMEs' needs with reference to technology
 - Propagate and evaluate technologies related to informatisation for SMEs
 - Establish the fundamentals of technology innovation for SMEs
- Further information on TIPA could not be found, as only a very small part of its website is in English.

KAIARI

The Korea Association of Industry, Academy and Research Institute (KAIARI), is a private sector membership organisation whose purpose is to link the academic and private research sectors to the industrial and encourage R&D collaboration between them as well as between regionally spread members. Since 2006, it has been designated by SMBA as being exclusively in charge of industry-academia cooperation. On one hand, it provides a platform for the different sectors to meet and interact. On the other hand, it directly financially supports joint R&D projects. One support scheme is "Academic-Industrial Common Technology Development", under which SMEs can receive up to 75% of the funds they require for R&D. The eligibility criteria for both the enterprise and the research institute involved can be found on KAIARI's website, as well as the contact details for application. KAIARI also funds the use of university research facilities by SMEs as well as the creation of corporate R&D centres and the purchase/use of R&D equipment.⁹⁰

Skill Development
SBC

In the execution of HR-related SME support, the SMBA schemes mentioned above are implemented by SMBA itself. In addition, SBC provides training to SMEs through its network of 22 offices and the Small Business Training Institute (SBTI). Courses are run in several areas of business activities, such as executive training, technology training and quality management training. SBTI is represented in four locations across Korea. In order to make them accessible for SMEs, both the SME training centre and SBTI provide training courses at rates lower than those charged by private training institutions.

SBHRDC

Another institution engaged in the development of skilled manpower for SMEs is the Small Business Human Resource Development Centre (SBHRDC). Information on the organisational structure and the activities of this institute could not, however, be found.

90 <http://www.sanhak.net/english/index.html>.

SME Services

Table 36 Key SME Services provided by South Korea

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-----------------|--|--|--|
| NEEDS ADDRESSED | Access to credit | <ul style="list-style-type: none">• Guideline ratios for private Banks lending to SMEs• Direct loans• Provision of credit guarantees | <ul style="list-style-type: none">• SMBA• Small and Medium Business Corporation• Korea Credit Guarantee Fund(KODIT)• Korea Technology Finance Corporation (KOTEC)• Korea Eximbank• Korea Trade Insurance Corporation (K-Sure) |
| | Marketing | <ul style="list-style-type: none">• Marketing Assistance Programme• Bidding schemes for SMEs in government procurement system• Overseas marketing service | <ul style="list-style-type: none">• SMBA• SBC• Korea Public Procurement Service |
| | Infrastructure, technology and skill development | <ul style="list-style-type: none">• Certification system for “venture businesses” | <ul style="list-style-type: none">• Korean Venture Capital Corporation• Korean Institute of Entrepreneurship Development• Large and Small Business Cooperation Foundation• Korea Trade Investment Promotion Agency (KOTRA)• Korean Small and Micro Business Development Agency |
| | | Technology: <ul style="list-style-type: none">• Certification system for “innovative SMEs”• Technology Development Credit Card System—government provided funding for technology to SMEs | <ul style="list-style-type: none">• Korea Association of Industry, Academy and Research Institute (KAIARI)• Korea Technology and Information Promotion Agency |
| | | Skill development/ Human Resources: <ul style="list-style-type: none">• Low cost training services• Certification system for management innovation | <ul style="list-style-type: none">• Small Business Training Institutes |

Annexe 3 Country Overview: Rest of International Sample

Brazil

INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

| | | |
|--|--|---|
| Brazilian Development Bank (BNDEs) (State-owned development bank—main financing agent for development in Brazil) | MINISTRY OF DEVELOPMENT, INDUSTRY & FOREIGN TRADE (MDIC) <ul style="list-style-type: none">• SME policy development | Permanent SME Forum (Public private dialogue forum) <ul style="list-style-type: none">• Makes recommendations on SME policy to MDIC (to go to Brazilian Congress) |
| | Brazilian Micro & Small Business Support Service (SEBRAE) (Private non-profit organisation created by law, includes public and private sectors and research institutions) <ul style="list-style-type: none">• Supports projects for SMEs• Works with Brazilian clusters to build export capabilities• Provides training and consultancy services | Trade and Investment Promotion Agency (APEX-Brasil) (Private & Independent Agency linked to MDIC) Supports SMEs frequently through forming partnerships with non-profit organisations e.g. <ul style="list-style-type: none">• Financial and technical support• Organises SME participation in trade missions |

Key Policy Areas and Institutional Responsibility

Brazil has a federal system of government. The Brazilian Federation is the union of three distinct political entities: the states, the municipalities and the federal district. States have autonomous administrations, their own legislature and tax-raising powers. Despite this, states have much less autonomy to create their own laws than in the United States. SMEs account for 67% of employment in Brazil. Their importance in Brazil’s economic development has been recognised since the 1970s, evidenced by the creation of a centre to provide managerial assistance to SMEs, which was transformed into SEBRAE in the early 1990s. In pursuing its goal of SME promotion, SEBRAE intermediates between government organisations in charge of industrial and technological policies and also between other organisations in the public and private sectors, establishing partnership programmes for small and medium enterprises.

SEBRAE represents a decentralised system, with units in states and in the federal district. At the national level SEBRAE is responsible for strategic direction. At the state level, state units develop projects in line with national guidelines, taking particular regional needs into account.

Table 37 Key SME policy areas and institutions in Brazil

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------------------------|--|--|---|
| OVER-ARCHING POLICY DIRECTION | Role of the state in SME development and promotion | The importance of SMEs in Brazil's economic development has been recognised since the 1970s. Brazil's SME promotion and development policy focuses on developing and strengthening SMEs to contribute further to job creation, innovation and inter-industry linkages. Apart from policies in support of SMEs, there is a strong focus on cooperation between research institutes/universities and SMEs. | <ul style="list-style-type: none">• Responsibility for policy: Ministry of Development, Industry and Foreign Trade• Responsibility for service delivery: Brazilian Micro & Small Business Support Service (SEBRAE) |
| | Respective roles of federal-and state-level institutions (in a decentralised system) | <ul style="list-style-type: none">• Federal institutions drive SME policy and service delivery.• SEBRAE reflects Brazil's decentralised system, with units in states and in the federal district. Nationally SEBRAE is responsible for strategic direction; state units develop projects in line with national guidelines. | |
| NEEDS/ISSUES | Access to credit | <ul style="list-style-type: none">• Micro credit• Venture capital funds• Guarantee funds | <ul style="list-style-type: none">• Brazilian Development Bank |
| | Marketing | General: <ul style="list-style-type: none">• Trade fairs• Network of market agents• eMarketplace Access to global markets: <ul style="list-style-type: none">• Market research• Trade fairs• Round tables• International exhibitions | <ul style="list-style-type: none">• SEBRAE• Trade & Investment Promotion Agency (APEX-Brasil) |
| | Infrastructure, technology and skill development | Infrastructure: This does not appear to be an explicit major feature of Brazil's SME policy Technology: <ul style="list-style-type: none">• Technical consultancies• Design clinics• Business incubators• Science and technology parks• Certification Skill development: <ul style="list-style-type: none">• Cooperation between research institutes/ universities and SMEs• Training and workshops | <ul style="list-style-type: none">• Small Business Training Institutes •The SIMPLES law passed in the early 1990s started the process of lessening regulatory burdens for SMEs |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|--|---|---|
| NEEDS/ISSUES | Rehabilitation of sick SMEs and speedy exit procedures for non-viable SMEs | <ul style="list-style-type: none">• This does not appear to be an explicit major feature of Brazil's SME policy | |
| | Complex labour laws | <ul style="list-style-type: none">• The SIMPLES law passed in the early 1990s started the process of lessening regulatory burdens for SMEs | |
| | Taxation policy and administration reform | <ul style="list-style-type: none">• No substantive information in the sources reviewed | |
| KEY EMERGING THEMES IN SME DEVELOPMENT PRACTICE AND LITERATURE | Enabling environment/legal and regulatory reform | <ul style="list-style-type: none">• The SIMPLES law passed in the early 1990s started the process of lessening regulatory burdens for SMEs• Centrais FÁCIL: one-stop shops | |
| | Market linkages (value chains, cluster development) | <ul style="list-style-type: none">• SEBRAE works with Brazilian clusters to build export capabilities | <ul style="list-style-type: none">• SEBRAE |
| | Local and regional economic development | <ul style="list-style-type: none">• No substantive information in the sources reviewed | |
| | Public-private dialogue | <ul style="list-style-type: none">• Formal process for government engagement with SMEs on policy development | <ul style="list-style-type: none">• Permanent SME Forum |
| | Women in business | <ul style="list-style-type: none">• No substantive information in the sources reviewed | |
| | M&E (measuring and reporting results) | <ul style="list-style-type: none">• No substantive information in the sources reviewed | |

China

INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

| | | |
|--|--|---|
| People's Bank of China <ul style="list-style-type: none">• Policies to encourage financial institutions to improve services to SMEs | State Council: National Development and Reform Commission (Department of SMEs) <ul style="list-style-type: none">• Develops national economic strategies | |
| Ministry of Science & Technology <ul style="list-style-type: none">• Manages the SME Innovation Fund | Ministry of Industry and Information Technology (MolIT) <ul style="list-style-type: none">• SME policy development | |
| SME Innovation Fund <ul style="list-style-type: none">• Free funds to technically advanced start-up SMEs. | National Leading Group for Promoting SMEs (Established by State Council, headed by MolIT, constitutes 14 Ministries, including Ministry of Finance, Technology & Agriculture) <ul style="list-style-type: none">• Overall coordination of Government's SME policies• Improving the external environment for SMEs• SME financing and service systems | SME Information Portal <ul style="list-style-type: none">• Provides information services for SMEs regarding policy, regulation, market and cooperative opportunities• Branch websites in provinces and municipalities |

Key Policy Areas and Institutional Responsibility

The importance of SMEs for China's economic development has been increasingly recognised by the Chinese government, particularly evident in the enacting of the 2003 SME promotion law. There were over 3.6 million SMEs by the end of 2003, with another 27.9 million individuals running their own household businesses in the country. These two categories account for over 99% of the country's total enterprises. China's developing policy on SME development focuses on technology, innovation and skills development, particularly through central government-led development of industry clusters and incubators.

Table 38 Key SME Policy Areas and Institutions in China

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------------------------|--|--|--|
| OVER-ARCHING POLICY DIRECTION | Role of the state in SME development and promotion | <ul style="list-style-type: none">• Strong state role in SME promotion through supporting technology, innovation⁹¹ and skills development; access to finance; incentivising special economic zones. There is also a focus on encouraging business start-ups to expand employment opportunities. | <ul style="list-style-type: none">• Responsibility for high-level policy: State Council (Department of SMEs within the National Development & Reform Commission)• Responsibility for SME policy and service delivery: National Leading Group for Promoting SMEs / Ministry of Industry & Information Technology |
| | Respective roles of federal-and state-level institutions (in a decentralised system) | <ul style="list-style-type: none">• China has three levels of government: central, provincial, and municipal. SME policy is driven by the central government | |
| NEEDS/ISSUES | Access to credit | <p>Strong focus on promoting financing and credit guarantee systems, e.g.:</p> <ul style="list-style-type: none">• SME Innovation Fund provides merit-based free funds to technically advanced start-up SMEs, playing leverage role to attract equity investment (for example, in Sichuan, it is estimated that one yuan from the fund can secure five yuan from the market)• The central government encourages provinces and cities to establish credit guarantee companies – currently 300 of these are in operation and have increased the amount of lending to SMEs | <ul style="list-style-type: none">• SME Innovation Fund• People's Bank of China• National Leading Group for Promoting SMEs |
| | Marketing | <p>Access to global markets:</p> <ul style="list-style-type: none">• Fund for SME International Market Development to support SMEs in participation in overseas exhibitions and fairs• China International SME Fair (has been held annually since 2003) <p>Government procurement:</p> <ul style="list-style-type: none">• Government Procurement Law aims to raise the proportion of SME products and services in government procurement | <ul style="list-style-type: none">• Fund for SME International Market Development• National Leading Group for Promoting SMEs |

91 Outline of National Medium and Long-Term Plan for Sci-Tech Development

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--------------|--|---|---|
| NEEDS/ISSUES | Infrastructure, technology and skill development | <p>Infrastructure:</p> <ul style="list-style-type: none">• Development of large-scale science and industrial parks is a key element of China's SME innovation policy <p>Technology:</p> <ul style="list-style-type: none">• Introduction of tax regime giving preferential rates to accredited high-tech enterprises• Encouraging linkages between SMEs and academia through supporting the setting up of joint labs and research and development centres and through joint or commissioned research and development | <ul style="list-style-type: none">• State Council / municipal government• Ministry of Science and Technology• SME Innovation Fund• Ministry of Industry and Information Technology, Department of SME• SME Information Portal |
| | | <p>Skill development:</p> <ul style="list-style-type: none">• Improving business support services, for example through supporting business incubators, business counselling services, and science parks• Emphasis on education and training, for example, through the SMEs training framework and the SME Galaxy Training Programme which offers training in business administration and industrial policies• Creation of information networks for SMEs, for example, the SME Information Portal which provides information | |
| | Rehabilitation of sick SMEs and speedy exit procedures for non-viable SMEs | This does not appear to be an explicit major feature of China's SME policy | |
| | Complex labour laws | <ul style="list-style-type: none">• Employment Law 2008 clarifies and streamlines the responsibilities of employers and employees | <ul style="list-style-type: none">• Ministry of Human Resources and Social Security of the People's Republic of China |
| | Taxation policy and administration | <ul style="list-style-type: none">• Introduction of a tax regime that gives preferential rates to accredited high-tech enterprises.• Lower tax rates for micro enterprises with modest profits• For example, the corporate tax rate implemented in 2008 was 25%, but was reduced to 15% for accredited high-tech enterprises and 20% for micro enterprises with modest profits | <ul style="list-style-type: none">• Ministry of Finance |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|---|---|--|
| KEY EMERGING THEMES IN SME DEVELOPMENT PRACTICE AND LITERATURE | Enabling environment/legal and regulatory reform | <ul style="list-style-type: none">• Special economic zones have been given a variety of incentives and have been allowed to experiment with new laws and regulations | <ul style="list-style-type: none">• SEZs can be developed, managed and owned by central, provincial, and municipal government. There is no private participation. At national level, the State Council is responsible for SEZs |
| | Market linkages (value chains, cluster development) | <p>Clusters are a key element of China's SME innovation policies. For example:</p> <ul style="list-style-type: none">• Beijing's Zhongguancun cluster is a national centre for technology development with 16 specialised science parks located in close proximity to universities, science academies and state laboratories• The Overseas Students Pioneer Park is for Chinese students returned from overseas. Returnees can convert all their income from their businesses into foreign exchange and enjoy tax exemptions | <ul style="list-style-type: none">• State Council / municipal government |
| | Local and regional economic development | <ul style="list-style-type: none">• Focus on reforms in rural as well as urban areas. For example, rural reforms have re-established the family farming system and raised the prices of agricultural products. The enhanced productivity provided critical initial capital for the establishment of small firms in rural areas. Urban and industrial reforms have gradually released resources to the market, enabling SMEs to access needed materials | <ul style="list-style-type: none">• State Council |
| | Public-private dialogue | <ul style="list-style-type: none">• The emphasis is on strengthening links between the private sector and academia to enhance technological development, rather than on encouraging policy dialogue | |
| | Women in business | This does not appear to be an explicit major feature of China's SME policy | |
| | M&E (measuring and reporting results) | No substantive information in the sources reviewed | |

Taiwan

INSTITUTIONAL FRAMEWORK OVERVIEW FOR SME PROMOTION / SUPPORT

| | | |
|---|--|--|
| SME Credit Guarantee Fund (2003, responsibility transferred from the Ministry of Finance to the Ministry of Economic Affairs) <ul style="list-style-type: none">• Credit guarantees for SMEs | SMinistry of Economic Affairs <ul style="list-style-type: none">• SME policy development | |
| SME Development Corporation (Established in accordance with SME Development Statute) <ul style="list-style-type: none">• Invests (both directly and indirectly) in the SME sector• Helps SMEs to secure funding• Undertakes international technology collaboration projects,• Assists SMEs with mid- and long-term financial planning. | Small and Medium Enterprise Administration (SMEA) (Agency of Ministry of Economic Affairs) <ul style="list-style-type: none">• Policy advice• Research and surveys related to SMEs• Creates SME incubation platform• Strengthens SMEs' ability to use information technology effectively• Coordinates SME financing mechanisms | ESMENET portal site <ul style="list-style-type: none">• Integrated Information services portal site for SMEs SME Online University <ul style="list-style-type: none">• Taiwan' s SME Online University is the first e-learning website developed for SMEs in Asia. Start-up and Innovation Cultivation Institute <ul style="list-style-type: none">• Training |

Key Policy Areas and Institutional Responsibility

Nearly 98% of businesses in Taiwan are SMEs and they provide about 80% of private sector employment. Like Korea and Japan, Taiwan built much of its economic success on SMEs. During the 1960s and 70s, SMEs tended to be associated with subcontracting to Taiwan's large firms. However, during the 1980s the focus began to shift to high-tech industries. Today, the key feature of Taiwan's SME policy is innovation, in line with the government's intention of making Taiwan into a "Green Silicon Island". Key policies for SME support include the creation of R&D centres in Taiwan by foreign corporations, the setting up of local innovation and incubation centres for SMEs and the establishment of high-tech

Table 39 Key policy areas and institutions in Taiwan

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|-------------------------------|--|---|--|
| OVER-ARCHING POLICY DIRECTION | Role of the state in SME development and promotion | Taiwan's overall SME policy vision is to build the environment required for SME start-up and growth. Five key areas of focus are: <ul style="list-style-type: none">• Improved business environment conducive to SME development• Creation of SME incubation platforms• Strengthening SMEs' ability to make effective use of information technology• Enhancing the provision of managerial guidance to SMEs• Integration of SME financing mechanisms | <ul style="list-style-type: none">• Responsibility for setting policy: Ministry of Economic Affairs (created in 1938 by merging and streamlining several ministries including Ministries of Industry and Commerce; Agriculture and Forests; and the Energy Commission)• Responsibility for delivery policy: Small and Medium Enterprise Administration (SMEA) |
| | Respective roles of federal-and state-level institutions (in a decentralised system) | SME policy and support is driven by the central government | |
| NEEDS/ISSUES | Access to credit | The integration of SME financing mechanisms is a key focus of Taiwan's SME policy. SMEA does this by: <ul style="list-style-type: none">• Formulating accounting systems suitable for SMEs to help strengthen financial management capabilities• Collaborating with the SME Credit Guarantee Fund, the Taiwan Small | <ul style="list-style-type: none">• SMEA |
| | Marketing | General: <ul style="list-style-type: none">• Supporting the development of branded marketing through the provision of branding consulting services, short-term diagnostic guidance, general guidance to individual firms, and the holding of presentations to publicise the results of successful guidance provision Government procurement: <ul style="list-style-type: none">• Public announcements of procurement projects and the establishment of registration and qualifications systems for SMEs to bid for government contracts (Articles 37, 38 of the Act for Small and Medium Enterprises) Access to global markets: <ul style="list-style-type: none">• Taiwan opened the Second APEC Local Cultural Industry Virtual Exposition with the aim of helping local cultural industries expand into international markets | <ul style="list-style-type: none">• SMEA |

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--------------|--|---|---|
| NEEDS/ISSUES | Infrastructure, technology and skill development | <p>Infrastructure:</p> <ul style="list-style-type: none">Establishment of local innovation and high-tech incubation centres for SMEs <p>Technology and skill development:</p> <ul style="list-style-type: none">The Entrepreneur Success Network website provides business start-up knowledge and news about training programmes; incorporates an “electronic shop window” virtual marketing platform (which helps SMEs publicise their products), a resource matching platform to reduce the cost of business start-up and an entrepreneurship ePaper⁹²The Start-up and Innovation Cultivation Institute provides training programmes for entrepreneurs using both conventional and online learning methods⁹³The ESMENET portal site,⁹⁴ which serves as an integrated information services portal site for SMEs, provides practical value-added information, including information on SME start-up, marketing, business information, financing, operational management, international trade, details of financing sources and a case study database)Start-up consulting service centres at 24 locations throughout Taiwan which provide free consulting services over a toll-free hotlineBusiness start-up publications, including a range of brochures introducing entrepreneurial opportunities in key sectors, entrepreneur handbooks and academic research on entrepreneurshipBusiness start-up seminarsSME eLearning University provides over 700 different courses free of charge | <ul style="list-style-type: none">SMEASMEAStart-up and Innovation Cultivation InstituteESMENET portal siteSMEASME On-line University |
| | Rehabilitation of sick SMEs and speedy exit procedures for non-viable SMEs | Does not appear to be an explicit major feature of Taiwan's SME development policy | |

92 see <http://sme.moeasmea.gov.tw> | 93 see <http://emba.moeasmea.gov.tw>

94 see <http://sme.nat.gov.tw>

| Policy Area | | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|---|---|---|
| NEEDS/ISSUES | Complex labour laws | SMEs are assisted with the costs of complying with worker protection measures, for example, when there was a dramatic rise in the Taiwanese minimum wage in July 2007. Measures to mitigate negative impacts and help SMEs adjust included providing a subsidy for workers working less than 32 hours a week in selected industries (including fast food, restaurant and hotel) and raising the amount employers could deduct from a foreign labourer's salary for food and accommodation | <ul style="list-style-type: none">Council of Labour Affairs |
| | Taxation policy and administration | No substantive information in sources reviewed | |
| KEY EMERGING THEMES IN SME DEVELOPMENT PRACTICE AND LITERATURE | Enabling environment/legal and regulatory reform | <ul style="list-style-type: none">SME legal information services website which provides SMEs with a range of legal and regulatory information servicesSME Legal and Regulatory Guidance Manual for the reference of SMEs | <ul style="list-style-type: none">SMEA |
| | Market linkages (value chains, cluster development) | <ul style="list-style-type: none">Encouraging the creation of research and development centres in Taiwan by foreign corporationsSetting up local innovation and high-tech incubation centres for SMEs | <ul style="list-style-type: none">SMEA |
| | Local and regional economic development | Promoting the development of SMEs with local character and in rural communities, e.g., by focusing on a single township or district, using a comprehensive range of guidance measures to achieve effective integration of local industry and creating linkages to build synergy and support the growth of a prosperous local economy | <ul style="list-style-type: none">SMEA |
| | Public-private dialogue | No substantive information in sources reviewed | |

| | Policy Area | Brief Outline Of Policy / Key Service Delivery Mechanisms | Key Institution(S) Responsible For Delivering Policy / Service |
|--|--|---|--|
| KEY EMERGING THEMES IN SME DEVELOPMENT PRACTICE AND LITERATURE | Women in business | <ul style="list-style-type: none">Phoenix Micro Fund for Entrepreneurial Women, launched to boost female participation in the workforce and to help build an environment conducive to entrepreneurial activity by women. Involves provision of both partner service and credit guarantees.The SME Credit Guarantee Fund and the Council of Labour Affairs' Employment Stability Fund had each contributed NTUSD50 million for the provision of credit guarantees to help female entrepreneurs obtain the funding they need to start their own business | |
| | M&E (measuring and reporting results) | <ul style="list-style-type: none">Research into international best practices in key SME policy promotion areas⁹⁵Development of management system for evaluating SMEA's performance | |

⁹⁵ Recent studies include: "Future Development Strategy for SME Incubator Centers," "The Policies Adopted by OECD Member Nations to promote New Business Establishment and Anticipated Future Trends in this Area,," "Planning Guidance Mechanisms for SME Financial Restructuring – the London Approach,;" and "International SME Start-up Policy."

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- 6 Mr. Praveen Mahto, Economic Adviser, DC-MSME
- 7 Ms. Sangeeta Saxena, Deputy Director, DC-MSME
- 8 Mr. V. Srinivas, Joint Secretary, Ministry of Textiles
- 9 Mr. Amrit Lal Meena, Joint Secretary, Ministry of Food Processing Industries
- 10 Mr. K G Alai, Chief General Manager, SIDBI
- 11 Dr. R K Singh, Deputy General Manager, SIDBI
- 12 Mr. Subodh Kumar, Deputy General Manager, ISTSL
- 13 Mr. HP Kumar, Chairman cum Managing Director, NSIC
- 14 Mr. Ravindra Nath, Director Finance, NSIC
- 15 Mr. G Dixit, General Manager-Finance, NSIC
- 16 Dr. Naresh Pal, Deputy CEO, KVIC
- 17 Mr. Niraj Verma, Senior Financial Sector Specialist, THE WORLD BANK
- 18 Mr. Dhruva Purakaystha, Senior Specialist, Finance And Private Sector Development, THE WORLD BANK
- 19 Ms. Sujatha Vaidyanathan, ASIAN DEVELOPMENT BANK
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**Strategy Paper on Micro, Small and Medium Sized Enterprises
(MSME) Policies for Promotion of Sustainable Economic
Development**

July 2011



Prepared on behalf of GIZ by
Katherine Miles

Strategy Paper on Micro, Small and Medium Sized Enterprises (MSME) Policies for Promotion of Sustainable Economic Development

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1. Introduction

The Indian Ministry of Micro, Small and Medium Sized Enterprises (MoMSME) is working to improve access to financial and non financial services and promote responsible business behaviour of Micro, Small and Medium Sized Enterprises (MSMEs). It is anticipated that its policies and schemes will boost the responsible competitiveness of the sector and contribute to economic growth, job creation and balanced regional development.

GIZ is supporting the Office of the Development Commissioner of the MoMSME (DC MSME) in this work as part of the MSME Financing & Development Project, under *Umbrella Programme Component II, MSME Policies and Programmes*.¹ Together GIZ and DC MSME seek to integrate responsible business measures in MSME promotion policies.

This paper has been written to build awareness and inform strategic decision making on how GIZ & MoMSME can drive responsible business behaviour among MSMEs through policies that promote sustainable economic development. It highlights why sustainable economic development is important for MSMEs and the role public policy and support programmes play in promoting this agenda. It presents a number of international examples of MSME focused policies that promote sustainable economic development. In turn, the paper draws attention to the key sustainability dimensions of a number of assessment frameworks and methodologies used by policy makers to screen and assess the non financial impacts of potential policies.

Building on these findings, the report provides a checklist of sustainability aspects to consider when assessing whether MSME policies and schemes promote sustainable economic development and responsible business behaviour. Finally, it provides recommendations for DC MoMSME and GIZ on steps towards integrating measures of responsible business behaviour into MSME policies

¹ The concrete output of the MSME Umbrella Programme is the formulation and selective application of strategies for policy intervention and support programmes with focus on sustainable economic development (considering issues of ecology, resource efficiency, gender, diversity, etc.).+The BMZ-indicator states that by the end of the programme: %At least 50 % of the public support schemes for MSME of MoMSME contain approaches for the promotion of responsible business, and that take into account issues of ecology and resource efficiency, as well as social (e.g. gender/diversity, social standards) and stakeholder aspects.% (Source: Programme descriptions, action plans, curricula, incentive schemes, etc.)

2. Setting the Context: MSMEs and Sustainability Economic Development

Despite their size Micro, Small and Medium Sized Enterprises (MSMEs) collectively have a significant impact on the economy, environment and society.² On average they account for 50 percent of the Gross Domestic Product (GDP) of all countries and for 60 percent of their employment.³ Within Europe more than 99 percent of companies are SMEs, employing almost 70 percent of the European workforce and producing close to 60 percent of the overall turnover from manufacturing and services.⁴ At the outset it should be noted that there is no globally applicable definition of MSMEs but both the number of employees and financial assets are used as reference points. Details of the Indian and European Union definitions are contained within Box 1 & Box 2.

Box 1: Defining Micro, Small and Medium Sized Enterprises (MSMEs) in India

In India MSMEs are classified into two categories which are in turn further split down by size:

| Classification | Investment ceiling for Plant, Machinery or Equipment | |
|----------------|--|---------------------------|
| | Manufacturing Enterprises | Service Enterprises |
| Micro | Up to \$62,000 | Up to \$25,000 |
| Small | Between \$62,000 - \$1.25 mn | Between \$25,000- \$0.5mn |
| Medium | Between \$1.25 mn- \$2.5 mn | Between \$0.5mn- \$1.25mn |

Source: The Indian Ministry of Micro, Small and Medium Sized Enterprises. 2009. The Fourth All-India Census of Small Scale Industries (2006-7).

Box 2: Defining Micro, Small and Medium Sized Enterprises (MSMEs) in the European Union

Since 1 January 2005 MSMEs have been defined in the European Union as follows: The turnover of medium-sized enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million. Alternatively, balance sheets for medium, small and micro enterprises should not exceed EUR 43 million, EUR 10 million and EUR 2 million, respectively.

Source: OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17

In the fourth All India Census of Micro, Small and Medium Sized Enterprises (MSMEs) it was found there were 26.1 million MSMEs operating in the country (with only approximately 1.5 million registered and the rest unregistered operating informally).⁵ Together they are estimated to contribute 45 percent of industrial output, 40 percent of exports, and employ 60 million people. More recently in 2009 MSMEs' contribution towards GDP was reported to be 17 percent and is expected to increase to 22 percent by 2012.⁶ These figures indicate the importance of the sector to the Indian Economy as a contributor to the Gross Domestic Product (GDP), economic growth, job creation and balanced regional development.

² Pg 527 Schaper, M. 2002. The challenge of environmental responsibility and sustainable development: Implications for SME and entrepreneurship academics

³ Forstater, M., MacGillivray, A. and Raynard, P. in cooperation with the UNIDO Private Sector Development Branch, *Responsible Trade and market Access: Opportunities or Obstacles for SMEs in Developing Countries?* (2006), Vienna, Austria: United Nations Industrial Development Organization (UNIDO), p.12.

⁴ SMEs and the Environment in the European Union. European Commission, DG Enterprise and Industry

⁵ The Indian Ministry of Micro, Small and Medium Sized Enterprises. 2009. The Fourth All-India Census of Small Scale Industries (2006-7).

⁶ The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. Ministry of Corporate Affairs, India.

Turning to the non economic impacts of MSMEs, these are difficult to measure at a global level. But it is estimate is that 70 percent of all global pollution and environmental impacts result from MSMEs.^{7 8} Similarly, a European Commission study on the environmental impact of European SMEs suggests that while there is variation between sectors, SMEs account for approximately 64 percent of the industrial pollution in Europe.⁹ In terms of MSME resource usage, in the UK alone it is estimated that MSMEs account for 45% of UK business energy use.¹⁰

The non economic impacts of MSMEs are receiving increased attention in the context of the wider debate regarding development strategies. Economic development alone is no longer regarded as a strategy for poverty reduction and increased societal well being, if it is at the expense of social and environmental factors. Internationally there is widespread recognition that development is not synonymous with economic growth alone and the achievement of a society's economic goals is intricately intertwined with its social and environmental development. This has led to a focus on sustainable economic approach to development by governments and business alike.

The most frequently referenced definition of sustainable development or sustainability, provided by the United Nations World Commission on Environment and Development, is "development which meets the needs of the present without compromising the ability of future generations to meet their own needs".¹¹ The global policy debate around sustainability has led to discussions about the responsibilities of business. Government and civil society have called on businesses to take greater accountability for their actions. This is reflected in the creation of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.¹²

At the same time, in today's resource constrained world companies have started to reconsider their traditional approach to business. Companies have begun to manage and measure their social, economic and environmental impacts resulting from their operations and strategies, such as energy and water consumption. The management of external environmental and social risk factors, such as the availability energy supplies, or a skilled and motivated workforce, are now acknowledged as important to achieve longer term success and contribute towards business goals. Companies have demonstrated that if these non financial factors and their impacts are managed effectively, they can confer clear benefits in terms of risk management, cost and efficiency savings, brand management and innovation opportunities. This has led to an acknowledgment that a commitment to sustainable business models can contribute towards longer term business success.

Discussions on the responsibilities of business and has expanded from the previous focus on large businesses to include MSMEs. The cumulative size and scale of MSME impacts on society, environmental in addition to the economy has led to has led to a recent focus on their contribution towards sustainable development.¹³ For example, the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business have been

⁷ Pg 527. Schaper, M. 2002. The challenge of environmental responsibility and sustainable development: Implications for SME and entrepreneurship academics

⁸ Pg 6 Studer, S. Welford, R. & Hills, R. 2005. Drivers and Barriers to Engaging SMEs in Voluntary Environmental Initiatives.

⁹ SMEs and the Environment in the European Union. European Commission, DG Enterprise and Industry

¹⁰ Vickers I. & Vaze P. 2009. SMEs in a Low Carbon Economy.

¹¹ Brundtland, G. H.: Our Common Future. United Nations World Commission on Environment and Development (Brundtland Commission). Oxford 1987.

¹² The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. Ministry of Corporate Affairs, India.

¹³ German Federal Government.2010. National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.

designed to be applicable to MSMEs and acknowledge the business case for MSMEs to adopt sustainability business practices.¹⁴

While the business case is the same for MSMEs as other companies, a unique angle is the role MSMEs play in the supply chain of larger businesses including multi national companies. Policy makers and business owners are united in their aim to increase the export potential of Indian MSMEs and increasing the responsible business practices of MSMEs can support this goal.

Resulting from consumer pressure and willingness to pay a premium for products produced ethically, sourcing decisions from international buyers now routine include considerations related to social and environmental compliance.¹⁵ It is not just the international buyers that are incorporating these requirements in to their decision making process and driving responsible business behaviour among MSMEs. Many Indian buyers have expectations regarding MSME suppliers performance, as they recognise it is intricately interwoven with their own.¹⁶ The issues they consider in their buying decisions include worker health and safety, fair wages, and toxin levels in products.¹⁷ Therefore, the competitive international marketplace increasingly rewards MSME suppliers that go beyond the legal requirements in terms of managing their economic, environmental and social impacts. In response MSMEs are recognising the case to manage their non financial impacts to gain access to markets such as Europe, where sustainability can confer a competitive advantage, and consolidating their position back home.¹⁸

To conclude, by taking this longer term perspective on economic development, and adopting responsible business practices, the growth of the MSME sector can be both socially and environmentally sustainable. It is currently unknown the existing levels of awareness about responsible business issues among MSMEs in India. Given the fact that the concept of responsible business is relatively new, there is perhaps scope for awareness raising activity among MSMEs to highlight to them the business case of a sustainable approach to business. Therefore, it is recommended that MoMSME and GIZ establish a joint programme with the Ministry of Corporate Affairs to support awareness raising regarding the business case for responsible business among MSMEs. This can include the promotion of the National Voluntary Guidelines on Responsible Business among this target stakeholder community.

¹⁴ Pg 32- 33, The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. Ministry of Corporate Affairs, India.

¹⁵ Hiscox et al. Consumer Demand for Fair Labor Standards.

¹⁶ Pg 32- 33, The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. Ministry of Corporate Affairs, India.

¹⁷ Pg 32- 33, The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. Ministry of Corporate Affairs, India.

¹⁸ Miles, K & Plugge, L. 2008. In Ready Supply. Ethisphere Q1

3. The Role of MSME Policies to Promote Sustainable Economic Development

MoMSME policy influences the context in which Indian MSMEs operate and can contribute to the risks and opportunities faced by these businesses, as well as their economic, environmental and social impacts.¹⁹ The Ministry can further wield influence by developing MSME policies and targeted programmes that actively promote sustainable economic development. They can incentivise good behaviour, risk mitigation and stimulate businesses to take advantage of opportunities presented by taking a sustainable approach to business. As policy makers, they also have the powers to introduce regulation or penalties for those that do not comply.

If MoMSME is to encourage responsible business practices by MSMEs in its policy planning it must consider the broader picture of the relationship between the MSMEs business activities, and sustainable development. The positive and negative economic, environmental and social impacts of MSMEs, and the risks they face need to be identified so that MSME policies can be developed to address these objectives in a targeted way.

It should be noted that the material (or relevant) impacts of MSMEs may vary depending on numerous context factors such as the geographic location of the MSME and also depending on the sector and activities it is involved.²⁰ There will also be generic impacts, risks and opportunities, such as those faced due to climate change, which will be similar to any business regardless of size, sector or location. However, there will be unique issues facing all MSMEs due to their distinctive characteristics which will influence how they can respond to sustainability risks and opportunities. These include their relative informality, resource constraints, such as access to finance, and their ability to influence and their operating environment.²¹ These characteristics can result in negative impact in terms of lost tax revenue for the government, but also employees face a lack of protection, as well as a lack of social and environmental compliance.

In developing policy to promote the transition to a more sustainable economy, MoMSME will need to establish policy objectives that address the impacts that MSMEs incur in pursuit of their business goals, such as their energy consumption. In turn, the policies need to encourage MSMEs to adopt new practices that minimise the negative impacts. For example, policies can be developed that encourage them to use raw materials, water and energy and other natural resources more efficiently. On the social side, they could be encouraged to adopt practices that protect the health and safety of their workers, and ensure that workplaces do not discriminate on the basis of gender or other factors.

It would also be expected that the policies are considered that address the emerging external risks and opportunities facing MSMEs presented by their current operating context. These challenges relate to the fact that the MSMEs are operating in ~~the~~ India. The risks facing them include energy and water supplies being insufficient to meet demand, persistent poverty. In terms of opportunity, policies could have the objective of incentivising MSME innovation regarding the potential for new product lines or business services that relate to wider sustainability trends, such as products that support the transition to a low carbon economy.

A thorough analysis of the MSME impacts is out of scope of this work. However, by identifying how other governments are addressing these issues then it will be possible to draw conclusions about the current thinking regarding notable generic MSME impacts and

¹⁹ Pg2 Macqueen, D. Small Scale Enterprise and Sustainable Development: Key Issues and Policy Opportunities to Improve Impact. IIED.

²⁰ Pg2 Macqueen, D. Small Scale Enterprise and Sustainable Development: Key Issues and Policy Opportunities to Improve Impact. IIED.

²¹ 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

priority issues to consider in policy planning and formulation. This will be dealt with in the subsequent chapter.

Finally, once a policy has been conceptualised it is useful for MoMSME and other policy makers to consider whether it has an unintended social or environmental consequence.²² If so, adjustments would need to be made to minimize these impacts. -Section 4 of this paper deals with how policy makers such as MoMSME can assess the sustainability impacts of a policy during the planning phase.

²² Pg2 Macqueen, D. Small Scale Enterprise and Sustainable Development: Key Issues and Policy Opportunities to Improve Impact. IIED.

4. International Examples of MSME Policies

This section considers examples illustrating how different governments are approaching the promotion of sustainable economic development and aspects of responsible business behaviour among MSMEs. These policies and programmes can be drawn on by MoMSME to inform its own work. For the purposes of this study a selection of policies are highlighted from Germany, the UK and the USA and were generated through desk research.

4.1 Germany

General SME Policy

In January 2011 the Federal Ministry of Economics and Technology (BMWi) launched a SME initiative called *Building on SMEs: greater responsibility, greater freedom* which targets seven priority areas that they state are crucial for the commercial success of SMEs. These are: innovation; skilled workers; business start-ups and business succession; market opportunities abroad; financing; raw materials, energy, and materials efficiency; and bureaucracy reduction.²³

In this strategy the Government has highlighted the importance of using raw materials, energy and materials efficiently. It sets out its policy to support SMEs with information services and specific incentives to secure the availability of raw materials and to further improve energy and materials efficiency. Furthermore, it sets out its intention to call for statutory rules requiring a more efficient use of energy and materials to be shaped in such a way that they do not represent an excessive economic burden on SMEs.²⁴

The Ministry's Small Business Policy and Initiatives are set out on its website:

<http://www.bmwi.de/English/Navigation/Economic-policy/Small-business-policy/initiative-for-smes.html>

Corporate Social Responsibility

In its CSR Action Plan 2010, the Federal German Government set an objective of encouraging more SMEs to understand corporate social responsibility (CSR) as a business and strategy concept, and to practice CSR as part of their core business.²⁵ The Government intends to achieve this objective through plans to establish and/or extend the following programmes targeting SMEs, which are supported by numerous departments:

- CSR Guidance and coaching programme for small and medium-sized enterprises. Implemented by the Federal Ministry of Labour and Social Affairs and financed through the European Social Fund (ESF), this will offer SMEs assistance in their efforts to incorporate CSR in strategic ways into their business concepts. Advisory offices will provide specialised guidance and a central point of contact, and source of information will be established.
- Government support for regional and national activities and 'round tables' to promote information sharing between larger companies and SMEs and/or their suppliers as well as to establish networks.
- Federal Ministry of Economics and Technology support for target-oriented research on the subject of CSR in SMEs to disseminate corporate social responsibility. This

²³ BMWi. 2011. *Building on SMEs: Greater Responsibility, Greater Freedom*

²⁴ Pg 4. BMWi. 2011. *Building on SMEs: Greater Responsibility, Greater Freedom*

²⁵ Pg 6 German Federal Government. *National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.*

will build on work conducted by the Bonn based Institute for Research on Small and Medium-Sized Businesses (IfM)

- Advisory and guidance services on SME options on doing business in developing or newly-industrialising countries.
- developPPP.de is a programme established by the Federal Ministry of Economic Cooperation and Development and implemented by GIZ, DEG & Sequa to promote cooperation between business and development agencies. As part of the CSR action plan this programme will be made more attractive for SMEs.^{26 27}

The German Government's policy measures to foster responsible micro enterprises include:

- Establishing a microcredit fund with the aim of this fund is to develop a nation-wide supply of microcredit in the country in order to make it easier for micro-enterprises and new businesses founded by the unemployed, immigrants or women, to borrow money. This is supported by the Federal Ministry of Labour and Social Affairs, Federal Ministry of Economics and Technology.²⁸
- The Investment Act has been revised so that it is legal to sell microfinance funds in Germany. Consequently, investment funds can now invest in microfinance institutions which extend micro credits to small and micro-businesses in developing and newly industrialising countries. This has been implemented by the Federal Ministry of Finance.²⁹
- Supporting responsible micro enterprises and micro finance through the promotion of financial inclusion and responsible finance.³⁰

Energy Efficiency

- A Special Fund for Energy Efficiency in SMEs (*ERP³¹-Umwelt- und Energieeffizienzprogramm – B*) has been established in a joint initiative between the Federal Ministry of Economics and Technology and the KfW, a German government-owned development bank. -The programme consists of advice and the financing to SMEs regarding energy efficiency. -Low interest loans are available to finance activities equipment to encourage energy efficiency such as building and energy technology, including heating, cooling, lighting, ventilation, hot water.^{32 33}
- Financial Support for SMEs to improve the energy performance of buildings. Up until 2009, the Federal Ministry of Economics and Technology has provided " 1.4 billion assistance SMEs to make existing buildings more energy efficient."³⁴

²⁶ Pg 7 German Federal Government. National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.

²⁷ http://www.developpp.de/en/What_is_PPP.html#124

²⁸ Pg 8&9 German Federal Government. National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.

²⁹ Pg 9 German Federal Government. National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.

³⁰ Pg 9 German Federal Government. National Strategy for Corporate Social Responsibility . Action Plan for CSR . of the German Federal Government 2010.

³¹ Funding from the European Recovery Program (ERP), which were deployed in 1948 as a "Marshall Plan" to rebuild the German economy. This later became the ERP special fund of the federal government. KfW funds various programs from the ERP fund, these are labeled ERP programs. Source: <http://www.kfw.de/kfw/de/II/Service/Glossar/GlossarD-G.jsp#38923>

³² <http://www.kfw.de/kfw/de/Inlandsfoerderung/Programmuebersicht/Energieeffizienzberatung/index.jsp>

³³ IEA Database <http://www.iea.org/textbase/pm/?mode=pm&id=4150&action=detail>

³⁴ 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

Raw Materials

- The Government intends to use innovation vouchers to promote an efficient use of materials and raw materials. These vouchers will enable SMEs to obtain expert low cost advice on innovation relating to the use of materials and raw materials at a low cost.

Training

- Economics Ministry provides funding towards the establishment, equipping and modernisation of training facilities in order to help SMEs in the field of further training.³⁵
- Strengthening SMEs personnel strategy through the promotion of information and training events and advice for SMEs so that they can draw on external expertise.³⁶

Access to Finance

SME financing is one of the German Government's SME policy priorities as set out in its publication *Building on SMEs . Greater Responsibility, Greater Freedom* launched in January 2011.

- Until the end of 2010 Business Fund Germany provided access to liquidity and to investment funding for SMEs.
- Credit mediator has raised awareness in banks for the needs of SMEs. This is a free-of-charge service of a neutral mediator who advocates a second chance for companies seeking credit.
- The Kreditanstalt für Wiederaufbau (KfW) and the ERP Special Fund offer varied and comprehensive assistance for investment by SMEs including support for new start-ups.
- The ERP/EIF Fund of Funds participates in venture capital funds which primarily target German technology firms in the early and growth phase. The High-Tech StartUp Fund . a collaborative effort between the public and private sectors . has become the leading provider of venture capital for technology-based start-ups.

4.2 United Kingdom

General SME Policy

The UK Government sets out its policy plans to support SMEs in a publication entitled *'Bigger, Better Business – Helping small firms, start, grow and prosper'* published in January 2011.³⁷ This governmental strategy sets out its principles regarding working with small businesses, the challenges that exist for small businesses in the UK, and in turn the main features of the new system the government is setting up to support SMEs. Its focal areas relate to SME information, financing, mentoring and increasing entrepreneurial activity among women, Black, Asian and Minority Ethnic groups and Service leavers. Despite these priority areas it should be noted that SMEs do feature as a target group within sustainability related policies that are applicable to the entire business sector.

Energy Efficiency

Climate change mitigation and adaption is a key global sustainability related issue. In the UK a range of policies and programmes have been established on this theme which include specific policies targeting SMEs.

³⁵ Pg 12. BMWi. 2011. Building on SMEs: greater responsibility, greater freedom

³⁶ Pg 13. BMWi. 2011. Building on SMEs: greater responsibility, greater freedom

³⁷ Business Innovation and Skills (BIS) 2011. Bigger Better Business.

Almost a third of SME expenditure on energy in the UK is thought to be wasted through inefficient practices, with potential waste equal to £1.1 billion out of a total of £3.5 billion.³⁸ UK small and medium-sized enterprises (SMEs) could collectively save nearly £400 million per year in energy costs, and over 2.5 million tonnes of CO₂e¹, by reducing their carbon footprints.³⁹

The UK Government's BERR Enterprise Directorate commissioned a study on the challenges and opportunities that will affect UK small and medium-sized enterprises (SMEs) in the transition to a low carbon economy.⁴⁰ Building on this the government has formulated a number of schemes to support SMEs to manage their energy efficiency:

- The Energy Saving Small Loans Scheme. This scheme offers 0% fixed rate small business loans of £1,000 to £100,000 to help businesses install renewable energy technologies or measures that reduce energy consumption. It is funded by the Scottish devolved Government and aims to support businesses that are looking to replace old and inefficient technology as well as install energy efficiency measures.⁴¹ A range of measures that reduce energy consumption and/or renewable energy technology installations are eligible for funding.⁴² An energy review is required by SMEs before they can receive a loan.⁴³ The scheme is administered by the Energy Saving Trust which is a non-profit organisation jointly funded by the British Government and the private sector.
- Financial incentives known as Feed-In Tariffs (Clean Energy Cashback). Under this scheme energy suppliers have to make regular payments to SMEs among others who generate their own electricity from renewable or low carbon sources.^{44 45}
- The Carbon Trust SME Information & Certification Scheme.⁴⁶ The Carbon Trust was set up as a not for profit by the UK government to support the transition towards a low carbon economy. It provides a range of sector specific background information for SMEs to help them cut their carbon footprint including an online guide: The Growing Business Guide to Managing Carbon.^{47 48} They have a certification standard and online assessment tool specifically for SMEs, and in Wales and Northern Ireland they offer SMEs an interest-free loan to purchase energy-efficient equipment.^{49 50}

Sustainable Transportation

- The Cycle Friendly Employer Business Loans scheme. This scheme provides interest free loans to help SMEs install measures that help them promote cycling in the workplace, and ultimately become a Cycle Friendly Employer. It is funded by the Scottish Government. SMEs are able to loan up to £5000 to invest in: Cycle storage solutions; Changing room facilities, including showers; Improved access such as

³⁸ 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

³⁹ <http://www.carbontrust.co.uk/news/news/press-centre/2011/pages/uk-smes.aspx>

⁴⁰ 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

⁴¹ <http://www.energysavingtrust.org.uk/scotland/Scotland-Welcome-page/Business-and-Public-Sector-in-Scotland/Grants-loans-awards/Small-business-loans>

⁴² <http://www.energysavingtrust.org.uk/scotland/Scotland-Welcome-page/Business-and-Public-Sector-in-Scotland/Grants-loans-awards/Small-business-loans>

⁴³ <http://www.energysavingtrust.org.uk/scotland/Scotland-Welcome-page/Business-and-Public-Sector-in-Scotland/Energy-Efficiency/Energy-reviews>

⁴⁴ <http://www.energysavingtrust.org.uk/Generate-your-own-energy/Sell-your-own-energy/Feed-in-Tariff-scheme>

⁴⁵ <http://www.energysavingtrust.org.uk/scotland/Scotland-Welcome-page/Business-and-Public-Sector-in-Scotland/Grants-loans-awards/Small-business-loans>

⁴⁶ <http://www.clickgreen.org.uk/product/directory/121526-carbon-trust-standard-launches-new-sme-scheme.html>

⁴⁷ The Carbon Trust. 2011. The Growing Business Guide to Managing Carbon.

⁴⁸ <http://www.carbontruststandard.com/servlet/servlet.FileDownload?file=015D0000001K5tflAC>

⁴⁹ <http://www.carbontrust.co.uk/cut-carbon-reduce-costs/small-medium-business/energy-saving/pages/energy-saving-small-business.aspx>

⁵⁰ <http://www.carbontruststandard.com/pages/SME>

⁵⁰ http://en.wikipedia.org/wiki/The_Carbon_Trust

ramps instead of stairs; Lockers and drying room equipment; Improved lighting along workplace cycle paths; and Maintenance areas and tools.⁵¹

Waste

Waste is an emerging sustainability issue which is receiving attention in UK government policy. It is estimated that SMEs generate 60 percent of all commercial waste in England and Wales. This is not only an issue of concern in itself but also noted as an important source of embedded emissions of greenhouse gases.⁵²

In the Government Review of Waste Policy in England, Action Plan 2011 a range of SME focused policies and programmes have been developed some of which are specifically targeting SMEs.⁵³ SMEs have received particular attention as government's research on the topic identified a range of problems and barriers, particularly in relation to waste and recycling services provided to SMEs as well as a general lack of awareness.⁵⁴

- The establishment of a Waste Prevention Loan Fund managed by the Waste & Resources Action Programme (WRAP) to finance low-cost loans to businesses. This fund will focus on SMEs, in order to develop waste prevention activities.^{55 56}
- Develop SME Waste Minimisation Networks. These networks will encourage more businesses to reduce waste
- Develop a suite of measures to improve access to recycling services for SMEs and to remove the cost barriers to SME recycling.
- SME Awareness campaign on waste responsibilities.

Access to Finance

Ensuring the flow of credit to viable SMEs is acknowledged as essential for supporting growth and is noted as core UK governmental priority.⁵⁷ The UK Government has the stated goal of making the UK the most attractive developed economy in the world for investment in SMEs.⁵⁸

The key publication spelling out the UK Government's policy related to promoting SME access to finance is Financing Business Growth. The Government's Response to Financing a Private Sector Recovery published in 2010 by HM Treasury and the Department for Business Innovation and Skills (BIS).⁵⁹ It sets out the following policies:

- Enterprise Finance Guarantee (EFG): this fund enables viable SMEs with no financial track record or insufficient security can access debt finance. The Government will continue the Enterprise Finance Guarantee until 2014-15, providing up to £600m of additional lending to around 6,000 next year alone and, subject to demand, over £2 billion in total over the next 4 years.
- Enterprise Capital Funds: providing more than £300 million of investment into the equity gap for early stage innovative SMEs with the highest growth potential.
- A £1.5 billion Business Growth Fund to provide flexible equity finance for established businesses with growth potential seeking around £2 million to £10 million, focusing on

⁵¹ <http://www.energysavingtrust.org.uk/scotland/Scotland-Welcome-page/Business-and-Public-Sector-in-Scotland/Transport/Cycle-Friendly-Employer-Business-Loans-scheme>

⁵² 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

⁵³ UK DEFRA. 2011 The UK Government Review of Waste Policy in England, Action Plan 2011.

⁵⁴ Pg 13 UK DEFRA. 2011. UK Government Review of Waste Policy in England 2011.

⁵⁵ UK DEFRA. 2011. The UK Government Review of Waste Policy in England, Action Plan 2011.

⁵⁶ UK DEFRA. 2011. The UK Government Review of Waste Policy in England 2011.

⁵⁷ Department for Business Innovation and Skills (BIS) SME Access to Finance Frequently Asked Questions.

⁵⁸ Pg 5. Department for Business Innovation and Skills (BIS) & HM Treasury. 2011. Financing Business Growth. The Government's Response to Financing a Private Sector Recovery.

⁵⁹ Chapter 2. Department for Business Innovation and Skills (BIS) & HM Treasury. 2011. Financing Business Growth. The Government's Response to Financing a Private Sector Recovery.

- businesses with an annual turnover of £10 million to £100 million.⁶⁰ This equity fund will be paid for by banks, without the need for a taxpayer contribution, to repair the balance sheets of established and growing SMEs and, in turn, help them to access greater bank debt finance.
- The government is exploring establishing a commercial scheme based on its Enterprise Finance Guarantee for businesses seeking working capital to fund exports, as well as an export Credit Guarantee Department bond support scheme for exporters.
 - The establishment of a network of growth hubs to provide this strategic advice and coaching to SMEs to help businesses prepare for external investment can significantly improve the chances of accessing appropriate finance.⁶¹ In partnership with the BBA (British Bankers Association) it is establishing a national network of business mentors to support this work.
 - A commitment to revise the lending code and lending principles for small businesses to create a new internal appeals process for declined applications.

Procurement

The UK Government has established a new policy from February 2011 to significantly open up the public sector marketplace to SMEs. These policy measures are set out in the Procurement Policy Note . further policy measures to promote Small Business Procurement⁶²

- Launch of Contracts Finder to publish procurement and contracting information in one place, including procurement opportunities, tender documents and contracts.⁶⁴
- Introduction of a new Crown Commercial Representative to build more strategic dialogue between the government and smaller suppliers.
- Launch of SME Product Surgeries to enable selected SMEs to 'pitch' innovative products and services to a panel of senior procurement and operational professionals from central government and the wider public sector.
- All departments will be required to publish a set of specific, targeted actions to increase their business with SMEs.
- Establish an SME Panel to hold the government to account on delivering measures to open up public procurement to SMEs.
- All departments are required to state which contracts have been awarded to a small or medium enterprise (SME). Initially, departments will need to use the 'title' of the contract field in the Contract Award Notice and add the following text to the field, after the existing title text 'awarded to an SME'.⁶⁵
- Introduce the aim that 25% of government contracts will be awarded to Small and Medium sized Enterprises (SMEs)⁶⁶

Diversity

- Working with mentoring providers to understand and address the barriers to enterprise for all groups, including women, former service personnel and Black, Asian and other Minority Ethnic (BAME) communities⁶⁷
- Working with the Royal British Legion (RBL) to provide loans, grants and advice to UK Service Leavers to help them fund, plan and grow their own businesses.

⁶⁰ Department for Business Innovation and Skills (BIS) & HM Treasury. 2011. Financing Business Growth. The Government's Response to Financing a Private Sector Recovery.

⁶¹ Department for Business Innovation and Skills (BIS) & HM Treasury. 2011. Financing Business Growth. The Government's Response to Financing a Private Sector Recovery.

⁶² <http://www.cabinetoffice.gov.uk/content/sme-contracts>

⁶³ <http://www.cabinetoffice.gov.uk/sites/default/files/resources/policy-procurement-note-SMEs.pdf>

⁶⁴ <http://www.contractsfinder.businesslink.gov.uk/>

⁶⁵ UK Government Cabinet Office. 2011. Procurement Policy Note . Published guidance on implementing requirements for greater transparency in central Government procurement and contracting Information Note 02/11 18 January 2011

⁶⁶ UK Business Innovation and Skills (BIS) Department 2011.

⁶⁷ Business Innovation and Skills (BIS) department 2011. Bigger, Better Business.

4.3 United States of America

General SME Policies

The US Small Business Administration (SBA) is a United States government agency that provides support to entrepreneurs and small businesses.⁶⁸ Its Strategic Plan for fiscal years 2011 . 2016 is detailed online at;

http://www.sba.gov/sites/default/files/serv_strategic_plan_2010-2016.pdf

The SBA details its strategic goals and objectives in the plan. The three strategic goals stated are: Growing businesses and creating jobs; Strategic Goal 2: Building an SBA that meets needs of today's and tomorrow's small businesses; Strategic Goal 3: Serving as the voice for small business. These relate to issues such as access to finance, government procurement & diversity, training and counselling, the burden of regulation for small businesses, and innovation.

It is useful to note that the SBA has a Strategic Sustainability Performance Plan of its own, which is its strategy for improving its sustainability performance within its own operations.⁶⁹

Energy Efficiency

- Energy Star for Small Business Product. The U.S. Environmental Protection Agency and the U.S. Department of Energy run a joint programme called Energy Star which works to protect the environment through energy efficient products and practices. They offer advice and support to SMEs on energy efficiency, and publish a guide for small businesses entitled *Putting Energy into profits*. Energy Star a guide for small businesses⁷⁰ Energy star has a Small Business Network List, an online network of SMEs that they have helped become more energy efficient. In addition, they have an Energy Star Small Business Award which recognises small businesses who are working to save energy and prevent pollution.^{71 72 73 74}
- Small Business Innovation Research (SBIR) and Small Technology Transfer (STTR) Programs are U.S. Government programs in which federal agencies with large research and development (R&D) budgets set aside a small fraction of their funding for competitions among small businesses only. Small businesses that win awards in these programs keep the rights to any technology developed and are encouraged to commercialize the technology.^{75 76} The research areas include energy production (e.g. fossil, nuclear, and renewable), energy use, and environmental management.

Public Procurement/ Contracting

The Federal government sets aside certain contract bid opportunities exclusively for small businesses and has a statutory goal of contracting 23 percent in prime contract dollars to small businesses. As such a range of initiatives and policies have been implemented to support this goal.⁷⁷

- The Department of Defense (DOD) and various areas of the U.S. Armed Forces typically allots 20% of its procurement contracts and over 30% of its subcontracting opportunities to small businesses each year.⁷⁸

⁶⁸ <http://www.sba.gov/>

⁶⁹ SBA 2010. Strategic Sustainability Plan

⁷⁰ Energy Star. *Putting Energy into profits*. Energy Star a guide for small businesses

⁷¹ http://www.energystar.gov/index.cfm?c=sb_success.sb_winners

⁷² http://www.energystar.gov/index.cfm?fuseaction=small_business.showSmallBusinessSearch

⁷³ 2009. Vickers I. & Vaze P. SMEs in a Low Carbon Economy.

⁷⁴ http://www.energystar.gov/index.cfm?c=small_business.sb_index

⁷⁵ <http://science.energy.gov/sbir/>

⁷⁶ <http://science.energy.gov/sbir/about/>

⁷⁷ http://en.wikipedia.org/wiki/Small_Business_Administration

⁷⁸ <http://www.sba.gov/content/federal-business-opportunities>

- There is a Historically Underutilized Business Zones (HUBZone) Certification program which helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. In order to qualify, small businesses have to obtain HUBZone certification in part by employing staff who live in a HUBZone.⁷⁹
- There is a business assistance program for small disadvantaged businesses (The 8(a) Program) which offers assistance to firms that are owned and controlled at least 51 percent by socially and economically disadvantaged individuals.⁸⁰
- A Women-Owned Small Business (WOSB) Federal Contract program authorizes contracting officers to set aside certain federal contracts for eligible Women-owned small businesses (WOSBs) or Economically disadvantaged women-owned small businesses (EDWOSBs). To be eligible, a firm must be at least 51 percent owned and controlled by one or more women, and primarily managed by one or more women.^{81 82}
- At least 3 percent of all federal agencies' contracting dollars have to go to businesses owned by service-disabled veterans. service-disabled veteran-owned small businesses (SDVOSB) in line with the Service-Disabled Veteran-Owned Small Business Initiative - Executive Order 13360⁸³
- There are incentives in place for the Federal agencies and federal contractors to contract with tribal and Alaska Native Corporations ANC firms to address the extreme poverty that exists on Indian reservations and in Alaska Native Villages. There are three different programmes:
 - The SBA 8(a) Program - Tribal and ANC firms are eligible to receive sole source 8(a) contracts regardless of dollar size, with no upper limit, while all other 8(a) firms may not receive sole source contracts in excess of \$3 million for services and \$5 million for manufacturing.
 - The A-76 Program . an expedited procedure when contracting with a firm that is 51 percent or more Native American owned
 - The 5 percent Subcontracting Bonus . a contractor that subcontracts with a firm that is 51 percent or more Native American owned is entitled to receive a bonus equal to 5 percent of the amount of the subcontract award.

Access to Finance

- Disaster Loans. SBA provides low-interest, long-term loans for physical and economic damage caused by a declared economic or environmental disaster through its Office of Disaster Assistance (ODA). The disaster declarations are detailed in an online database and many of which can be classified as weather related disasters.⁸⁴
- An online search tool for business loans, grants and financing for SMEs.⁸⁵

Diversity

- Women's Business Centers (WBCs) represent a national network of nearly 100 educational centres designed to assist women start and grow small businesses. WBCs operate with the mission to "level the playing field" for women entrepreneurs, who still face unique obstacles in the world of business.

Access to Natural Resources

⁷⁹ <http://www.sba.gov/category/navigation-structure/contracting/working-with-government/small-business-certifications-audiences/hubzone-certification>

⁸⁰ <http://www.sba.gov/content/8a-business-development-0>

⁸¹ <http://www.sba.gov/content/women-owned-small-business-federal-contract-program>

⁸² SBA Factsheet: Women-Owned Small Business Federal Contract Program. 2011

⁸³ <http://www.gsa.gov/portal/category/25547>

⁸⁴ <http://www.sba.gov/content/current-disaster-declarations>

⁸⁵ <http://www.sba.gov/loans-and-grants>

- Natural Resources Assistance Programme. The federal government sells large quantities of natural resources and surplus real and personal property authorized for sale in accordance with public law. SBA cooperates with other federal agencies to channel a fair share of this property and resources to small businesses. Items covered under this programme include Timber, Royalty Oil, Leases for rights to minerals, oil, gas, and coal, and Real Estate.⁸⁶

4.4 Findings and Recommendations

The policy objectives of the international examples of MSME policies that promote sustainable economic development can broadly be classified into two:

1. Policies and programmes with the objective of addressing economic, environmental and social Impacts of MSMEs, such as their energy consumption. These policies recognise that MSMEs can have both a positive and negative non financial impact on society. The interventions seek to maximise the positive impact and minimise the negative impact.
2. Policies, and programmes with the objectives of addressing economic, environmental and social challenges facing MSMEs due to their characteristic small nature, for example their access to finance. -These policies recognise the important role that MSMEs play in contributing to sustainable development, through providing economic empowerment for women and other marginalized groups, job creation, and balance economic growth.

In terms of how sustainability measures have been integrated into the policies and programmes on these themes, it can be concluded that they typically draw on a number of generic approaches to drive sustainable development among MSMEs:

- Awareness raising activities and publications on specific issues;
- Training;
- Technical advice and mentoring schemes;
- Networks to share best practice;
- Financial incentives for adopting specific sustainability measures;
- Grants for research on specific sustainability topics; and
- Award and certification schemes to recognise performance.

It can be noted that most of the policies specifically target and are applicable to all SMEs although some targeted policies exist which make certain MSME demographic characteristics a requirement in receiving support. Other policies consider MSMEs as a specific target group in the development of broader strategies that address sustainability issues such as climate change or waste management. Therefore in designing MSME policies for sustainable economic development, MoMSME is encouraged to collaborate with other Ministries in establishing MSME policies on cross cutting topics such as climate change. In addition, they can consider if there are certain priority groups within the MSME sector it can target and incentivise.

In terms of policy conditions, it is apparent that some of the benefits offered through the policies, such as access to finance and favourable interest rates, are only available to those MSMEs that are willing to adopt certain measures. Therefore, it can be said there is a category type of policies that make implementing sustainability measures a precondition for receiving scheme support. However, at this stage the majority of policies are not contingent on MSMEs meeting a certain level of sustainability performance, with exception to the energy efficiency award in the USA and UK Carbon Trust Certification scheme. This is perhaps

⁸⁶ <http://www.sba.gov/content/natural-resources-assistance-program>

reflective of the very recent focus on this sector and its sustainability practices and performance.

There was some convergence on the themes that are addressed in different country contexts, such as energy efficiency, diversity, access to public procurement and financial access. These themes could be of relevance for MoMSME to address as it seeks to integrate measures of responsible business behaviour into MSME policies. Furthermore, the specific policies could be drawn on and tailored for MSMEs in the Indian context.

Policies and programmes to promote the energy efficiency of MSMEs is a notable priority for governments internationally who have integrated these into their SME and/or climate strategies. It is out of scope of this work to recommend specific policies for MoMSME to adopt related to promoting sustainable development. Nonetheless, it is recommended that the Ministry and/or GIZ undertake an evaluation of the extent to which these themes are currently addressed by MoMSME policies and if there is scope to establish or extend policies on these themes.

For example, SIDBI already has financial products in place with incentives to encourage MSMEs to become more energy efficient by upgrading their equipment. These programmes are funded by international lines of credit and not currently by the MoMSME. Therefore, to maximise the potential of MSMEs adopting more energy efficient practices, incentives could be built into the other lines of credit offered to MSMEs and funded by the Government of India. In addition, the government could offer financial support for SMEs to improve the energy performance of buildings. Financial incentives, such as cash back, could be provided to those SMEs that generate their own electricity from renewable or low carbon sources.

Given that there is a lack of awareness of the business case for improving energy efficiency, MoMSME could establish a hub to provide practical technical advice and support to SMEs on how to become more energy efficient. MoMSME could run an awareness campaign and distribute support materials with practical advice on how MSMEs can reduce their energy consumption. Furthermore, MSMEs could be stimulated to manage and measure their energy efficiency consumption through a national award that recognises SMEs that have actively taken steps to reduce their energy usage.

A national or regional MSME network could be set up to encourage business owners to share their experiences of implementing energy efficiency measures. In the first instance all those MSMEs that have received funding from SIDBI under the international energy efficiency lines of credit could be connected in an online network.

5. Checklist for Assessing Existing MSME Promotion Policies and Schemes

In formulating any MSME policy, it is necessary to determine whether the policies under consideration address the intended objective or have any unintended side effects. Impact assessments are the mechanisms used for this purpose by many governments, and while the methods used have differed the main goal has been the same. They support decision-makers in assessing the potential impacts of policy options by considering the respective advantages and disadvantages with the main goal of minimising the costs and burdens for business and society.⁸⁷

In light of international commitments to promote sustainable economic development, some governments around the world have begun to give greater attention to aspects of sustainable development. Now several governments are routinely assessing the non-financial impacts of policy options, basically taking the environmental and social impacts of policies into account.⁸⁸

Pioneers of this approach include the UK, the European Commission, and Germany and so examples of such impact assessments, and the sustainability aspects they address, are drawn on in this section of the paper.⁸⁹ It considers their approach and the dimensions that are examined in these assessments to assess whether potential policies have the desired outcome of promoting sustainable economic development. Building on these examples, a checklist will be presented of the dimensions that could be incorporated into such an assessment framework for MoMSME.

It is worth noting that these assessment frameworks do not distinguish between whether it is a policy for an MSME or any type of business. Furthermore, they are applied to any policy and not just those targeting sustainability focused policy.

5.1 United Kingdom

The UK Government's Impact assessment is defined as *'a tool used by policy makers to assess and present the likely costs and benefits (monetised as far as possible) and the associated risks of a proposal that might have an impact on the public, private or civil society organisations'*. It encourages policy makers to think through the reasons for government intervention, to consider the various options for achieving an objective and to understand the consequences of a proposed intervention.

Detailed guidance on the government's approach to Impact Assessment is provided in the following Department of Business, Skills and Innovation documents:

- **Impact Assessment Guidance.** Available at: <http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/I/10-1269-impact-assessment-guidance.pdf>
- **Impact Assessment Toolkit: A guide to undertaking an Impact Assessment (IA) and completing the IA Template. Version 2.0.** Available at: <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/i/11-518-impact-assessment-toolkit.pdf> The IA Toolkit is a guide to undertaking an IA and filling out the IA Template

⁸⁷ Jacob, K., Guske, A. & von Prittwitz, V. 2011. Consideration of Sustainability Aspects in Policy Impact Assessment: An International Comparative Study of Innovations and Trends.

⁸⁸ ditto

⁸⁹ ditto

- **Impact Assessment Template – Quick Start Guide. December 2010.** Available at: <http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/I/10-1270-impact-assessment-template-quick-start-guide.pdf>

As part of the Impact Assessment there are a series of 10 supplementary specific impact assessments/tests. These tests all address non financial impacts, and so broadly seek to ascertain the impact on policies on dimensions related to the promotion of sustainable economic development.

The purpose of each test is considered in turn:

- **Statutory Equality Duties Guidance:** This focuses on the elimination of discrimination and promotes equality with regard to race, disability and gender, including gender reassignment, as well as good race relations. In line with the Equality Act 2010, a policy, decision or a service delivery initiative should be assessed for its impact on equality if it is relevant to equality. This involves systematically assessing the likely (or actual) effects of policies, looking for opportunities to promote equality as well as negative or adverse impacts.
- **Competition Assessment:** This addresses policies related to the nature of competition between firms. It is related to the economic impacts of a policy, based on the fact that an economic cost can be incurred when a policy restricts competition while some policies stimulate greater competition and economic benefits. The Competition Assessment is designed to identify these costs and benefits, and ensure they are taken into account in the overall IA.
- **Greenhouse Gas Impact Assessment:** This is used with the Wider Environmental Impact to assess the environmental impacts of a policy. Any net impacts on greenhouse gas emissions (i.e. reductions or increases in emissions, reported as carbon dioxide equivalents) over the lifetime of the policy, split by sectors (traded vs. non-traded), calculated, monetised and factored into the cost and benefit analysis. The specific question included in the Impact Assessment states: 'What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)+A full carbon impact assess is not required if a policy does not affect an activity or sector that may have a significant impact on emissions of greenhouse gases.⁹⁰
- **Wider Environmental Impact Test:** This considers all environmental impacts apart from carbon, to understand and quantify, where possible in monetary terms, a proposed policy's environmental consequences. These consequences can include potential impacts on air quality, water quality and quantity, flood risk, biodiversity, landscape and noise.⁹¹
- **Health and Well Being:** This considers the health and well-being effects of policies, plans, programmes and projects including how they can reduce health inequalities. It is used to identify the major implications on the health and well-being of people of non-health sector policies and projects, where health is not a primary objective.
- **Human Rights:** This test considers if the proposals have Human Rights implications.
- **Justice Impact Test:** This considers the impact of the Government's policy and legislative proposals on the justice system (civil and criminal). It is intended to help policy makers to quantify the cost and consider the operational implications of their proposals by assessing the impact of their initiatives on the justice system.
- **Rural Proofing:** This requires policy makers to consider the impact of any policy on rural people, businesses and communities including assessing the significance of those impacts; and where appropriate, adjust the policy to address the needs of those who live in rural areas.

⁹⁰ Pg 71 UK BIS 2010. Impact Assessment Guidance.

⁹¹ Pg 72 UK BIS 2010. Impact Assessment Guidance.

- **Sustainable Development Impact Test:** This identifies whether or not the options are compatible with all aspects of sustainable development, in comparison with the other tests which deal with a specific sustainability related aspect.^{92 93}
- **Small Firms Impact Test:** This is mandatory when policy proposals impose or reduce costs on business. The Small Firms Impact Test (SFIT) process seeks to help policy makers assess the impact of new proposals, including those being negotiated internationally, on small business.⁹⁴ This is inline with the requirement resulting from the Government's 2008 Enterprise Strategy that for all regulations that affect business, policy makers have to consider whether alternative approaches (e.g. flexibilities or exemptions) are appropriate for firms with fewer than 20 employees.⁹⁵ It helps policy makers to examine whether alternative approaches are more appropriate for firms with fewer than 20 employees, or if they can be given a complete or partial exemption from new rules, and also serves to quantify the annual costs the policy will place on micro, small and medium size businesses. The generic questions it considers are:
 - How serious is the problem the proposal seeks to address in relation to smaller firms?
 - Is there likely to be a greater impact on the operations and performance of small business than others?
 - Are there alternative approaches for smaller firms (including, but not limited to, exemptions, simplified inspections, less frequent reporting), which would not materially affect the potential benefits from the policy?
 - Are there any potential unintended effects associated with alternative approaches for smaller firms?

It should be noted that the UK's standard Impact Assessment template asks for the Distribution of annual cost (%) by organisation size (Micro Small Medium Large) of any proposed policy and Are any of these organisations exempt? Yes/No

Table 1: Topics considered in the UK Sustainability Impact Assessment

| Economic Impacts | Environmental Impacts | Social Impacts |
|-----------------------------------|--|--|
| Competition Small firms Impact | Greenhouse Gas Emissions Wider Environmental Issues: <i>air quality</i> <i>water quality and quantity</i> <i>flood risk</i> <i>biodiversity</i> <i>landscape</i> <i>noise</i> | Health and Wellbeing Human Rights Justice system Rural Proofing Statutory Equalities Duties: <i>Gender,</i> <i>Gender Reassignment,</i> <i>Race,</i> <i>Disability</i> |
| Sustainable Development Impact | | |

⁹² Pg 75. UK BIS. 2010. Impact Assessment Guidance.

⁹³ Further information about the Sustainable development impact test check is available at: <http://www.bis.gov.uk/policies/better-regulation/policy/scrutinising-new-regulations/preparing-impact-assessments/specific-impact-tests/sustainable-development-impact-test> and also <http://archive.defra.gov.uk/corporate/policy/guidance/sd-impact/>

⁹⁴ Department for Business, Innovation and Skills. 2009. Small Firms Impact Test

⁹⁵ <http://www.berr.gov.uk/whatwedo/enterprise/enterprisesmes/enterprise-framework/index.html>

5.2 European Commission

The European Commission has a set of Impact Assessment Guidelines which it defines as: *'A process that prepares evidence for political decision-makers on the advantages and disadvantages of possible policy options by assessing their potential impacts'*. It states that they are *a tool to ensure that Commission initiatives and EU legislation are prepared on the basis of transparent, comprehensive and balanced evidence*.⁹⁶

As part of the Impact Assessment, policymakers are required to analyze the likely economic, social and environmental impacts - both intended and unintended - for each option, as well as potential trade-offs and synergies.

There are three steps of the European Commission impact analysis:

Step 1: Identification of economic, social and environmental impacts

Step 2: Qualitative assessment of the more significant impacts

Step 3: In-depth qualitative and quantitative analysis of the most significant impacts⁹⁷

A series of generic questions are posed to support policy makers in the identification of the likely economic, social and environmental impacts of a policy:

- Identify direct and indirect environmental, economic and social impacts and how they occur;
- Identify who is affected by these impacts (including those outside the EU) and in what way;
- Identify whether there are specific impacts that should be examined (fundamental rights, SMEs, consumers, competition, international, national, regional);
- Assess the impacts in qualitative, quantitative and monetary terms or explain in the IA why quantification is not possible or proportionate; and
- Consider the risks and uncertainties in the policy choices, including expected compliance patterns.⁹⁸

The more detailed questions used for economic, social and environmental impacts relate to the following aspects. A full overview of the questions posed related to each of these impacts is included in the Annex.

Table 2: Topics considered in the European Commission Sustainability Impact Assessment

| ECONOMIC IMPACTS | SOCIAL IMPACTS | ENVIRONMENTAL IMPACTS |
|--|---|---------------------------------|
| Functioning of the internal market and competition | Employment and labour markets | The climate |
| Competitiveness, trade and investment flows | Standards and rights related to job quality | Transport and the use of energy |
| Operating costs and | Social inclusion and protection of | Air quality |
| | | Biodiversity, flora, |

⁹⁶ European Commission. January 2009. Impact Assessment Guidelines.

⁹⁷ Pg 32 - 37 European Commission. January 2009. Impact Assessment Guidelines.

⁹⁸ Pg 30 European Commission. January 2009. Impact Assessment Guidelines.

| | | |
|--|--|---|
| conduct of business/Small and Medium Enterprises Administrative burdens on businesses | particular groups Gender equality, equality treatment and opportunities, non - discrimination | fauna and landscapes Water quality and Resources |
| Public authorities | | Soil quality or Resources |
| Property rights | Individuals, private and family life, personal data | Land use |
| Innovation and research | | Renewable or non renewable resources |
| Consumers and Households | Governance, participation, good administration, access to justice, media and ethics | The environmental consequences of firms and consumers |
| Specific regions or sectors | Public health and Safety | Waste production / generation / recycling |
| Third countries and international relations | Crime, Terrorism and Security | The likelihood or scale of environmental risks |
| Macroeconomic environment | Access to and effects on social protection, health and educational systems | Animal welfare |
| | Culture Social impacts in third Countries | International environmental impacts |

With respect to identifying if there are any negative impacts of policies on SMEs, The European Commission has a methodology called the SME Impact Test. This methodology is applied as part of its impact assessments (IA) to analyse the likely economic, environmental and social effects of legislation by assessing the costs and benefits of policy options.⁹⁹

This includes:

- Consultation with SME representatives;
- Preliminary Assessment of Businesses likely to be affected;
- Measurement of the Impacts on SMEs; and
- Assess alternative options and mitigating measures.¹⁰⁰

5.3 Germany

A Regulatory Impact Assessment is required in Germany as part of the policy development process and is set out in the Joint Rules of the Procedure of the Federal Ministries.¹⁰¹ This has to be undertaken by the federal ministry which initiates a policy before it is submitted to the Federal Government.¹⁰² Since May 2009 ministries have had to carry out a Sustainability Check essentially a sustainability impact assessment, for each draft law or ordinance the results of which are then reviewed by the Parliamentary Advisory Council on Sustainable

⁹⁹ http://ec.europa.eu/enterprise/policies/sme/small-business-act/sme-test/index_en.htm

¹⁰⁰ Pg 31- 32 European Commission. January 2009. Part III Annexes to Impact Assessment Guidelines.

¹⁰¹ http://www.bmi.bund.de/SharedDocs/Downloads/DE/Veroeffentlichungen/ggo.pdf?__blob=publicationFile Further information available at: http://www.bmi.bund.de/cln_156/SharedDocs/Downloads/DE/Veroeffentlichungen/ggo.html?nn=11043#

¹⁰² Pg 29. European Union. Italian, Irish and Dutch Presidencies of the Council of the European Union. 2004. A comparative Analysis of Regulatory Impact Assessment in 10 European Countries.

Development.¹⁰³ This check applies only to the legislative process; there is no obligation to review the preliminary political decision-making process, such as strategies, programs, or budget.¹⁰⁴

The material aspects to be checked as part of the Sustainability Check relate to whether and how intended legislation contributes to meeting the various indicators and implementing the National Strategy for Sustainable Development. This National Sustainability Strategy sets out goals for 21 key areas where action is needed and the government regularly reports its progress against the indicators.¹⁰⁵¹⁰⁶ ¹⁰⁷It is also supported by 10 management rules to guide government actions with the rule that: Every generation must solve its own problems rather than passing them on to the next generation.¹⁰⁸

The questions that policy makers ask to assess the sustainability impact of a policy are: Will it impact negatively on the environment?; and What impacts will it have on social and economic development?¹⁰⁹

Its sustainability related areas of focus are set out in the table below:

Table 3: Topics considered in the Germany Sustainability Check

| Intergeneration equity | Quality of life | Social cohesion | International responsibility |
|--|---|---|--|
| Resource Protection Climate protection Renewable energies Land use Species diversity National debt National deficit Provision for future economic stability Innovation Education and Training | Economic prosperity Mobility Farming Air Quality Air pollution Health and nutrition Crime | Employment Perspectives for families Equal opportunities Integration | Development cooperation Opening markets |

5.4 Findings and Recommendations

Drawing on the sustainability impact assessments used by the governments in the UK & Germany, as well as the European Commission, it can be recommended that MoMSME explore the feasibility of establishing a sustainability impact assessment. This impact assessment or series of tests could be established with the objective of assessing the sustainability impact of any future MSME policies or schemes. -Initially, it could be piloted for MSME policies but later put forward as a mechanism to assess the impact of any Government of India policies. Furthermore, it could be retrospectively applied to existing

¹⁰³ http://www.bundesregierung.de/nn_208962/Content/EN/StatischeSeiten/Schwerpunkte/Nachhaltigkeit/nachhaltigkeit-2007-04-13-strukturen-der-nachhaltigkeitspolitik.html

¹⁰⁴ Jacob, K., Guske, A. & von Prittwitz, V. 2011. Consideration of Sustainability Aspects in Policy Impact Assessment: An International Comparative Study of Innovations and Trends.

¹⁰⁵ Federal statistics office of Germany. 2010. Sustainability Development in Germany - Indicator report 2010

¹⁰⁶ <http://www.bundesregierung.de/Webs/Breg/EN/Issues/Sustainability/sustainability.html>

¹⁰⁸ http://www.bundesregierung.de/nn_208962/Content/EN/StatischeSeiten/Schwerpunkte/Nachhaltigkeit/nachhaltigkeit-2007-04-13-die-10-managementregeln-der-nachhaltigkeit.html

¹⁰⁹ http://www.bmu.de/english/strategy_legislation/sustainability/doc/46448.php

policies and schemes to ascertain the potential intended and unintended economic, social and environmental impacts of policies and identify if adjustments are required.

The key questions that this impact assessment would have to ask are:

What impact will the policy and programme have on the following economic, environmental and social aspects?: Will these impacts be direct or indirect?; and who or what will be impacted and how?

The checklist of aspects for assessment could be based on the UK, German and EU schemes and it could include the following dimensions of economic, environmental and social impacts:

| Economic Impacts | Environmental Impacts | Social Impacts |
|--|--|---|
| Competition Small firms Impact National debt National deficit Innovation Administrative burdens on businesses Property rights Specific regions or sectors Third countries and international relations Macroeconomic environment | Greenhouse Gas Emissions Renewable or non renewable resources Climate protection Resource Protection Land use Air quality Air pollution Water quality and quantity Flood risk Biodiversity Noise Transport and the use of energy Soil quality or Resources Waste production / generation / recycling Environmental risks Animal welfare | Health and Wellbeing including nutrition Human Rights Access to Justice Crime, Terrorism and Security Rural Urban Divide Gender equality, Non discrimination based on Race & Disability Education and Training Employment & Labour Rights Families Social inclusion Access to social protection, health and educational systems Cultural diversity Social impacts in third Countries |

While the impact of a policy on SMEs could be incorporated into a sustainability impact assessment, it is recommended that MoMSME and GIZ explore the development of a specific SME Impact Assessment for implementation for all policies and not just those developed by MoMSME. This could draw attention to the fact other policies may have unintended effects on MSMEs.

6. Recommendations for DC MoMSME and GIZ

MSMEs have a significant impact on society and the environment, beyond their well documented economic impacts. This paper has illustrated how there is a business case for MSMEs to adopt business models and measures that take into account their non financial impacts and risks in order to contribute to sustainable development. It has also indicated the important role the public policy has to play in setting the operating context for MSMEs and in turn, supporting them to adopt responsible business practices.

Examples of international MSME policies to promote aspects of sustainable economic development have been provided and analysed. Furthermore, it has highlighted a number of frameworks employed around the world to analyse whether MSME policies promote sustainable economic development.

Based on this work a number of recommendations have been formulated for MoMSME and GIZ on the steps that they can take to integrate measures of responsible business behaviour into MSME policies.

It is recommended that the Ministry and/or GIZ:

- Explore the development of policies and programmes with the objective of addressing non financial impacts of MSMEs.
- Establish a joint programme with the Ministry of Corporate Affairs to support awareness raising regarding the business case for responsible business among MSMEs, including the promotion of the National Voluntary Guidelines on Responsible Business.
- Evaluate the extent to which existing policies address the energy efficiency, raw materials consumption, sustainable transportation and waste of MSMEs and consider if policies can be established or extended. For example:
 - Consider the feasibility of offering financial support for SMEs to improve the energy performance of their buildings or financial incentives to those SMEs that generate their own electricity from renewable or low carbon sources.
 - Research the possibility of setting up a hub to provide practical technical advice and support to SMEs on becoming more energy efficient, a nationwide awareness campaign, and a national award that recognises SMEs that have actively taken steps to reduce their energy usage.
- Examine the need to develop policies that target the economic, environmental and social challenges facing MSMEs due to their characteristic small nature.
- Evaluate whether or not existing policies sufficiently address the barriers facing MSMEs including financial access, access to state owned natural resources and public procurement contracts, training needs, and if new policies are required to effectively stimulate women's entrepreneurship in the sector and the diverse ownership of these businesses based on gender and other factors. For example:
 - India is in the process of establishing a new public procurement policy which will make it mandatory for all ministries and public sector undertakings (PSUs) to procure 20 percent of their total annual purchase volume from the micro and small enterprise. It is currently proposed that there is a 10% reservation for SC & ST as part of this policy, although this reservation is still under debate.¹¹⁰ Once implemented, MoMSME could extend this policy so that all departments could be required to publish a set of specific, targeted actions to increase their business with SMEs.

¹¹⁰ <http://smeetimes.tradeindia.com/smetimes/news/top-stories/2011/Mar/03/procurement-policy-for-msmes-faces-roadblock51331.html>

- Collaborate with other relevant departments to establish MSME policies for sustainable economic development on cross cutting topics such as climate change.
- MoMSME could show leadership to MSMEs and other government departments by formulating its own sustainability strategy related to its own operations (such as energy use, waste etc) and report on its progress.
- In existing and future policies and programmes, establish if there are any priority groups within the MSME sector that can be targeted and incentivised to adopted proposed measures by lowering the eligibility requirements.
- Explore the feasibility of establishing a sustainability impact assessment of any future MSME policies or schemes. This could be retrospectively applied to existing policies and schemes to identify if there are any the unintended economic, social and environmental impacts of policies, which need mitigating through adjustments to existing schemes.
- Implement an SME Impact test as part of the sustainability impact assessment or as a separate tool which considers the intended and unintended environmental, economic and social impacts of policies to SMEs. This could be used to assess all policies and not just those developed by MoMSME.

To conclude, MoMSME and GIZ are working together to promote responsible business behaviour of MSMEs to boost the responsible competitiveness of the sector and contribute to economic growth, job creation and balanced regional development. It is anticipated that by implementing some of the examples of policies outlined in this paper, and the subsequent recommendations, they can integrate responsible business measures in MSME promotion policies. In turn, the two partners can achieve their joint vision of inclusive economic growth and contribute towards a strategy of sustainable development for the country.

6. Annex

The following three tables set out the detailed questions posed by the European Commission as part of its Sustainability Impact Assessment when reviewing proposed policies:

| ECONOMIC IMPACTS | QUESTIONS TO ASK |
|--|---|
| Functioning of the internal market and competition | <p>What impact (positive or negative) does the option have on the free movement of goods, services, capital and workers?</p> <p>Will it lead to a reduction in consumer choice, higher prices due to less competition, the creation of barriers for new suppliers and service providers, the facilitation of anti-competitive behaviour or emergence of monopolies, market segmentation, etc?</p> |
| Competitiveness, trade and investment flows | <p>What impact does the option have on the global competitive position of EU firms? Does it impact productivity</p> <p>~ What impact does the option have on trade barriers?</p> <p>~ Does it provoke cross-border investment flows (including relocation of economic activity)?</p> |
| Operating costs and conduct of business/Small and Medium Enterprises | <p>Will it impose additional adjustment, compliance or transaction costs on businesses?</p> <p>~ How does the option affect the cost or availability of essential inputs (raw materials, machinery, labour, energy, etc.)?</p> <p>~ Does it affect access to finance?</p> <p>~ Does it impact on the investment cycle?</p> <p>~ Will it entail the withdrawal of certain products from the market? Is the marketing of products limited or prohibited?</p> <p>~ Will it entail stricter regulation of the conduct of a particular business?</p> <p>~ Will it lead to new or the closing down of businesses?</p> <p>~ Are some products or businesses treated differently from others in a comparable situation?</p> |
| Administrative burdens on businesses | <p>Does it affect the nature of information obligations placed on businesses (for example, the type of data required, reporting frequency, the complexity of submission process)?</p> <p>~ What is the impact of these burdens on SMEs in particular?</p> |
| Public authorities | <p>Does the option have budgetary consequences for public authorities at different levels of government (national, regional, local), both immediately and in the long run?</p> <p>Does it bring additional governmental administrative burden?</p> <p>~ Does the option require the creation of new or restructuring of existing public authorities?</p> |
| Property rights | <p>Are property rights affected (land, movable property, tangible/intangible assets)? Is acquisition, sale or use of property rights limited?</p> <p>~ Or will there be a complete loss of property?</p> |
| Innovation and research | <p>Does the option stimulate or hinder research and development?</p> <p>~ Does it facilitate the introduction and dissemination of new production methods, technologies and products?</p> <p>~ Does it affect intellectual property rights (patents, trademarks, copyright, other know-how rights)?</p> <p>~ Does it promote or limit academic or industrial research?</p> <p>~ Does it promote greater productivity/resource efficiency?</p> |
| Consumers and households | <p>Does the option affect the prices consumers pay?</p> <p>~ Does it impact on consumers' ability to benefit from the internal market?</p> <p>~ Does it have an impact on the quality and availability of the goods/services they buy, on consumer choice and confidence? (cf. in particular non-existing and incomplete markets . see Annex 8)</p> <p>~ Does it affect consumer information and protection?</p> <p>~ Does it have significant consequences for the financial situation of individuals / households, both immediately and in the long run?</p> |

| | |
|---|---|
| | <ul style="list-style-type: none"> Does it affect the economic protection of the family and of children? |
| Specific regions or sectors | <ul style="list-style-type: none"> Does the option have significant effects on certain sectors? Will it have a specific impact on certain regions, for instance in terms of jobs created or lost? Is there a single Member State, region or sector which is disproportionately affected (so-called %outlier+impact)? |
| Third countries and international relations | <ul style="list-style-type: none"> How does the option affect trade or investment flows between the EU and third countries? How does it affect EU trade policy and its international obligations, including in the WTO? Does the option affect specific groups (foreign and domestic businesses and consumers) and if so in what way? Does the option concern an area in which international standards, common regulatory approaches or international regulatory dialogues exist? Does it affect EU foreign policy and EU/EC development policy? What are the impacts on third countries with which the EU has preferential trade arrangements? Does it affect developing countries at different stages of development (least developed and other low-income and middle income countries) in a different manner? Does the option impose adjustment costs on developing countries? Does the option affect goods or services that are produced or consumed by developing countries? |
| Macroeconomic environment | <ul style="list-style-type: none"> Does it have overall consequences of the option for economic growth and employment? How does the option contribute to improving the conditions for investment and the proper functioning of markets? Does the option have direct impacts on macro-economic stabilisation? |

| SOCIAL IMPACTS | QUESTIONS |
|--|---|
| Employment and labour markets | <ul style="list-style-type: none"> Does the option facilitate new job creation? Does it lead directly or indirectly to a loss of jobs? Does it have specific negative consequences for particular professions, groups of workers, or self-employed persons? Does it affect particular age groups? Does it affect the demand for labour? Does it have an impact on the functioning of the labour market? Does it have an impact on the reconciliation between private, family and professional life? |
| Standards and rights related to job quality | <ul style="list-style-type: none"> Does the option impact on job quality? Does the option affect the access of workers or job-seekers to vocational or continuous training? Will it affect workers' health, safety and dignity? Does the option directly or indirectly affect workers' existing rights and obligations, in particular as regards information and consultation within their undertaking and protection against dismissal? Does it affect the protection of young people at work? Does it directly or indirectly affect employers' existing rights and obligations? Does it bring about minimum employment standards across the EU? Does the option facilitate or restrict restructuring, adaptation to change and the use of technological innovations in the workplace? |
| Social inclusion and protection of particular groups | <ul style="list-style-type: none"> Does the option affect access to the labour market or transitions into/out of the labour market? Does it lead directly or indirectly to greater equality or inequality? Does it affect equal access to services and goods? Does it affect access to placement services or to services of general economic interest? Does the option make the public better informed about a particular issue? |

| | |
|---|---|
| | <p>“ Does the option affect specific groups of individuals (for example the most vulnerable or the most at risk of poverty, children, women, elderly, the disabled, unemployed or ethnic, linguistic and religious minorities, asylum seekers), firms or other organisations (for example churches) or localities more than others? , firms, localities more than others?</p> <p>“ Does the option significantly affect third country nationals</p> |
| Gender equality, equality treatment and opportunities, non - discrimination | <p>Does the option affect the principle of non-discrimination, equal treatment and equal opportunities for all?</p> <p>“ Does the option have a different impact on women and men?</p> <p>“ Does the option promote equality between women and men?</p> <p>“ Does the option entail any different treatment of groups or individuals directly on grounds of sex, racial or ethnic origin, religion or belief, disability, age, and sexual orientation? Or could it lead to indirect discrimination?</p> |
| Individuals, private and family life, personal data | <p>“ Does the option impose additional administrative requirements on individuals or increase administrative complexity?</p> <p>“ Does the option affect the privacy, of individuals (including their home and communications)?</p> <p>“ Does it affect the right to liberty of individuals?</p> <p>“ Does it affect their right to move freely within the EU?</p> <p>“ Does it affect family life or the legal, economic or social protection of the family?</p> <p>“ Does it affect the rights of the child?</p> <p>“ Does the option involve the processing of personal data or the concerned individuals’ right of access to personal data ?</p> |
| Governance, participation, good administration, access to justice, media and ethics | <p>Does the option affect the involvement of stakeholders in issues of governance as provided for in the Treaty and the new governance approach?</p> <p>“ Are all actors and stakeholders treated on an equal footing, with due respect for their diversity? Does the option impact on cultural and linguistic diversity?</p> <p>“ Does it affect the autonomy of the social partners in the areas for which they are competent? Does it, for example, affect the right of collective bargaining at any level or the right to take collective action?</p> <p>Does the implementation of the proposed measures affect public institutions and administrations, for example in regard to their responsibilities?</p> <p>“ Will the option affect the individuals’ rights and relations with the public administration?</p> <p>“ Does it affect the individuals’ access to justice?</p> <p>“ Does it foresee the right to an effective remedy before a tribunal?</p> <p>“ Does the option make the public better informed about a particular issue? Does it affect the public’s access to information?</p> <p>“ Does the option affect political parties or civic organisations?</p> <p>“ Does the option affect the media, media pluralism and freedom of expression?</p> <p>“ Does the option raise (bio) ethical issues (cloning, use of human body or its parts for financial gain, genetic research/testing, use of genetic information)?</p> |
| Public health and safety | <p>Does the option affect the health and safety of individuals/populations, including life expectancy, mortality and morbidity, through impacts on the socio-economic environment (working environment, income, education, occupation, nutrition)?</p> <p>“ Does the option increase or decrease the likelihood of health risks due to substances harmful to the natural environment?</p> <p>“ Does it affect health due to changes in the amount of noise, air, water or soil quality?</p> <p>“ Will it affect health due to changes energy use and/or waste disposal?</p> <p>“ Does the option affect lifestyle-related determinants of health such as diet, physical activity or use of tobacco, alcohol, or drugs?</p> <p>“ Are there specific effects on particular risk groups (determined by age, gender, disability, social group, mobility, region, etc.)?</p> |
| Crime, Terrorism and Security | <p>Does the option improve or hinder security, crime or terrorism?</p> <p>“ Does the option affect the criminals’ chances of detection or his/her potential gain from the crime?</p> <p>“ Is the option likely to increase the number of criminal acts?</p> |

| | |
|--|---|
| | <p>“ Does it affect law enforcement capacity?</p> <p>“ Will it have an impact on security interests?</p> <p>“ Will it have an impact on the right to liberty and security, right to fair trial and the right of defence (?)</p> <p>“ Does it affect the rights of victims of crime and witnesses?</p> |
| Access to and effects on social protection, health and educational systems | <p>Does the option have an impact on services in terms of quality/access for all?</p> <p>“ Does it have an effect on the education and mobility of workers (health, education, etc.)?</p> <p>“ Does the option affect the access of individuals to public/private education or vocational and continuing training?</p> <p>“ Does it affect the cross-border provision of services, referrals across borders and co-operation in border regions?</p> <p>“ Does the option affect the financing / organisation / access to social, health and care services?</p> <p>“ Does it affect universities and academic freedom / self-governance?</p> |
| Culture | <p>Does the proposal have an impact on the preservation of cultural heritage?</p> <p>“ Does the proposal have an impact on cultural diversity?</p> <p>“ Does the proposal have an impact on citizens' participation in cultural manifestations, or their access to cultural resources?</p> |
| Social impacts in third countries | <p>Does the option have a social impact on third countries that would be relevant for overarching EU policies, such as development policy?</p> <p>“ Does it affect international obligations and commitments of the EU arising from e.g. the ACP-EC Partnership Agreement or the Millennium Development Goals?</p> <p>“ Does it increase poverty in developing countries or have an impact on income of the poorest populations?</p> |

| ENVIRONMENTAL IMPACTS | QUESTIONS |
|---|--|
| The climate | <p>Does the option affect the emission of greenhouse gases (e.g. carbon dioxide, methane etc) into the atmosphere?</p> <p>Does the option affect the emission of ozone-depleting substances (CFCs, HCFCs etc)?</p> <p>Does the option affect our ability to adapt to climate change?</p> |
| Transport and the use of energy | <p>Does the option affect the energy intensity of the economy?</p> <p>Does the option affect the fuel mix (between coal, gas, nuclear, renewables etc) used in energy production?</p> <p>Will it increase or decrease the demand for transport (passenger or freight), or influence its modal split?</p> <p>Does it increase or decrease vehicle emissions?</p> <p>Will the option increase/decrease energy and fuel needs/consumption?</p> |
| Air quality | <p>Does the option have an effect on emissions of acidifying, eutrophying, photochemical or harmful air pollutants that might affect human health, damage crops or buildings or lead to deterioration in the environment (soil or rivers etc)?</p> |
| Biodiversity, flora, fauna and landscapes | <p>Does the option reduce the number of species/varieties/races in any area (i.e. reduce biological diversity) or increase the range of species (e.g. by promoting conservation)?</p> <p>Does it affect protected or endangered species or their habitats or ecologically sensitive areas?</p> <p>Does it split the landscape into smaller areas or in other ways affect migration routes, ecological corridors or buffer zones?</p> <p>Does the option affect the scenic value of protected landscape</p> |
| Water quality and resources | <p>Does the option decrease or increase the quality or quantity of freshwater and groundwater?</p> <p>Does it raise or lower the quality of waters in coastal and marine areas (e.g. through discharges of sewage, nutrients, oil, heavy metals, and other pollutants)?</p> |

| | |
|---|---|
| | Does it affect drinking water resources? |
| Soil quality or resources | Does the option affect the acidification, contamination or salinity of soil, and soil erosion rates? Does it lead to loss of available soil (e.g. through building or construction works) or increase the amount of usable soil (e.g. through land decontamination)? |
| Land use | Does the option have the effect of bringing new areas of land (greenfields) into use for the first time? Does it affect land designated as sensitive for ecological reasons? Does it lead to a change in land use (for example, the divide between rural and urban, or change in type of agriculture)? |
| Renewable or nonrenewable resources | Does the option affect the use of renewable resources (fish etc) and lead to their use being faster than they can regenerate? Does it reduce or increase use of non-renewable resources (groundwater, minerals etc)? |
| The environmental consequences of firms and consumers | Does the option lead to more sustainable production and consumption? Does the option change the relative prices of environmental friendly and unfriendly products? Does the option promote or restrict environmentally un/friendly goods and services through changes in the rules on capital investments, loans, insurance services etc? Will it lead to businesses becoming more or less polluting through changes in the way in which they operate? |
| Waste production / generation / recycling | Does the option affect waste production (solid, urban, agricultural, industrial, mining, radioactive or toxic waste) or how waste is treated, disposed of or recycled? |
| The likelihood or scale of environmental risks | Does the option affect the likelihood or prevention of fire, explosions, breakdowns, accidents and accidental emissions? Does it affect the risk of unauthorised or unintentional dissemination of environmentally alien or genetically modified organisms? |
| Animal welfare | Does the option have an impact on health of animals? Does the option affect animal welfare (i.e. humane treatment of animals)? Does the option affect the safety of food and feed? |
| International environmental impacts | Does the option have an impact on the environment in third countries that would be relevant for overarching EU policies, such as development policy? |

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Scope & Approach of DC-MSME Schemes: development of an Impact Assessment framework

FINAL Report

Submitted by:
KPMG (Regd.)

10 September 2013

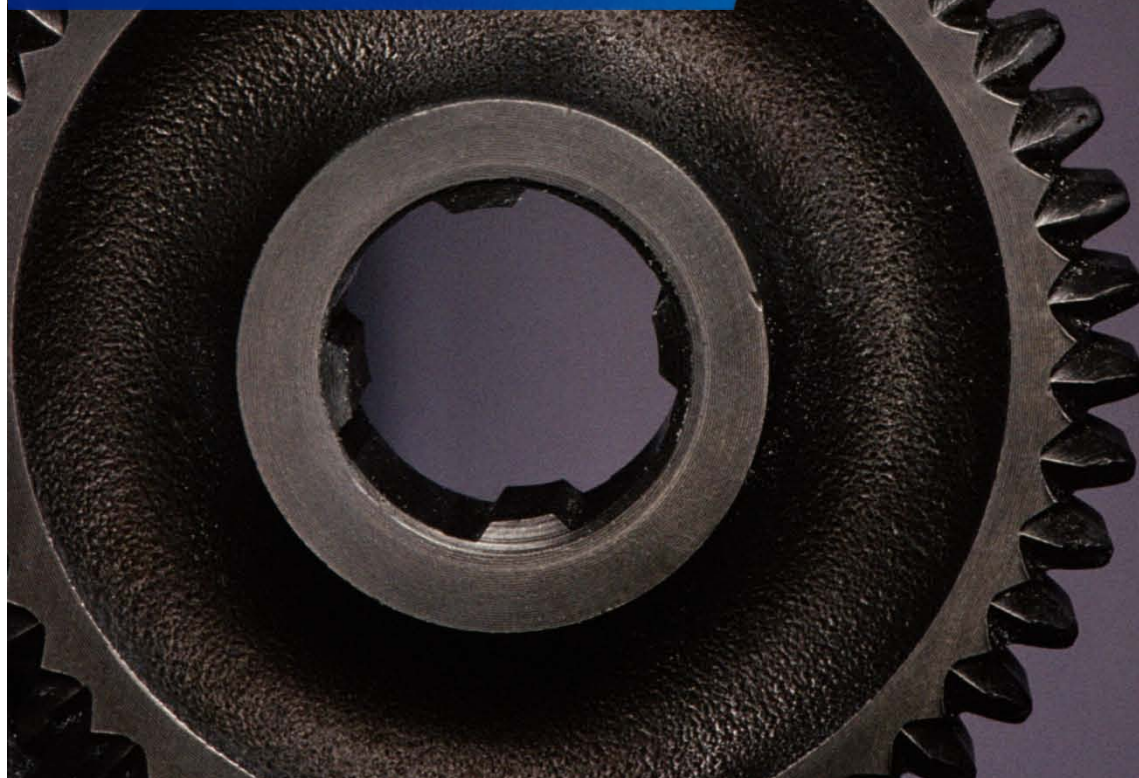


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List of Acronyms

| | |
|-----------|--|
| BEE | Bureau of Energy Efficiency |
| BMO | Business Membership Organisation |
| CSR | Corporate Social Responsibility |
| CDP | Cluster Development Programme |
| CFC | Common Facility Centre |
| CGFS | Credit Guarantee Fund Scheme |
| CGTSME | Credit Guarantee Trust for SMEs |
| CLCSS | Credit Linked Capital Subsidy Scheme |
| DC | Development Commissioner |
| DIC | District Industries Centre |
| DC (MSME) | Development Commissioner (Micro, Small & Medium Enterprises) |
| DI-MSME | Development Institute - MSME |
| FI | Financial Institution |
| FISME | Federation of Small and Medium Enterprises |
| FSC | Forest Stewardship Council |
| FTLO | Fair Trade Labelling Organisation |
| FYP | Five Year Plan |
| GOI | Government of India |
| GRI | Global Reporting Initiative |
| HACCP | Hazard Analysis Critical Control Points |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |
| IPR | Intellectual Property Rights |
| ISO | International Standards Organisation |
| JIT | Just In Time |
| LMCS | Lean Manufacturing Competitiveness Scheme |
| MC | Mini Cluster |
| MDA | Market Development Assistance |
| MoMSME | Ministry of MSME |
| M&E | Monitoring & Evaluation |
| MSME | Micro, Small & Medium Enterprises |
| MSME-UP | MSME Umbrella programme |
| NID | National Institute of Design |
| NIESBUD | National Institute for Entrepreneurship and Small Business Development |
| NIMSME | National Institute for MSMEs |
| NIT | National Institute of Technology |
| NMCP | National Manufacturing Competitiveness Programme |
| NPC | National Productivity Council |
| NVGs | National Voluntary Guidelines |
| ODS | Ozone Depleting Substances |
| PC | Planning Commission |
| PE | Private Equity |
| PIC | Project Implementation Committee |
| PPP | Public Private Partnership |
| PMES | Performance Monitoring and Evaluation System |
| QCI | Quality Council of India |
| QMS | Quality Management System |
| QTT | Quality Technology Tools |
| RFD | Results Framework Document |
| SEBI | Securities Exchange Board of India |
| S-E-E | Social, Environmental & Economic |
| SIDBI | Small Industries Development Bank of India |
| SPV | Special Purpose Vehicle |
| SSI | Small Scale Industries |
| TERI | The Energy & Resources Institute |
| TEQUP | Technology and Quality Up-gradation |
| TPM | Total Productive Maintenance |

Executive Summary

Micro, Small and Medium Enterprises (MSMEs) are major drivers for India's economic growth owing to their contribution to the gross domestic production, share in exports and towards generating employment. The sector contributes 8 percent to the country's Gross Domestic Product (GDP), 45 percent to the manufactured output and 40 percent to the country's exports. It provides employment to 60 million people through 28.5 million enterprises¹. The MSME sector has widespread presence in sectors ranging from simple consumer goods to high-precision, sophisticated finished products. MSMEs foster nation-wide social development by promoting industrialization and growth, reducing regional imbalances, and promoting wealth creation in rural and backward areas. MSMEs also significantly affect the natural resources, environment and contribute to the overall climate change & management processes.

A country like India needs MSME sector's growth to sustain her economic growth and to support the burgeoning population. However, there is a growing concern that today's gains (and MSME growth) should not come at the expense of tomorrow's security, and as such, it has a definite impact on sustainable development. A fast paced growth induced by a rapid consumption of resources can eventually slow down and can leave an irreparable damage on society and environment in future. Therefore, economic growth should also factor in sustainability aspects.

Sustainability can be thought of as having three major components: Economic Development, Social Development and Environmental Protection. Across the globe, governments are taking concrete measures to achieve sustainable development and the policies are designed with specific concern on sustainability. However, the biggest challenge has been the behavioural change among the stakeholders to include social development and environmental protection along with profit maximization. The Government policies for MSME sector in India are designed to boost economic development while achieving regional and social equity in the country. These policies (with the help of subsidies/ incentives) facilitate/promote the growth of the MSME in specific sectors/ areas. In addition to promoting economic growth, these policies also have an inherent potential to promote responsible business behaviour among MSMEs. Some of the policies are already making sincere attempt of inducing responsible business behaviour among firms/ cluster while others can be suitably modified to achieve the same.

The existing policies / schemes of Development Commissioner - Micro, Small and Medium Enterprises (DC-MSME) have been analysed in this paper for their acknowledgment and inclusion of sustainability aspects. Subsequently, gaps in the existing scheme were identified and modifications recommended improving sustainability aspects of the schemes.

1. Scope and purpose of the assignment

The objective of the assignment is to assess 17 schemes under the aegis of the DC-MSME on whether and how the aspects of "**sustainability**" and "**inclusion**" have been integrated into them. The assessment of the schemes has been done from the perspective whether they address the economic, environmental and social aspects of development of MSMEs and also whether there is a provision to address the challenges

¹ Annual Report, 2010-11, Ministry of MSME, Govt of India

faced by the MSMEs in adhering to 'responsible business practices'. The specific objective of the assignment is as mentioned below:

- a) Development of a framework for 'sustainability assessment' of the schemes on various S-E-E indicators on an 'as-is' basis
- b) Analysis of DC-MSME Schemes on this sustainability framework
- c) Development of an Impact Assessment Framework for DC-MSME schemes

A thorough analysis of the existing schemes of the DC-MSME on sustainability parameters, and development of a Sustainability Impact Assessment framework is expected to help the Ministry and other relevant stakeholders to understand the intended/unintended (a) social, (b) economic and (c) environmental consequences of policy measures. The research is also expected to help the policy makers in conceptualising policies and targeted programmes that actively promote sustainable and inclusive economic development.

2. Major limitations of the assignment

One of the limitations to this assignment was limited number of schemes as the scope of work was to analyse 17 DC-MSME schemes for development of an analytical framework. Majority of the schemes are aimed at addressing barriers to the economic growth of the MSME sector, while only a few acknowledge the requirement / value of including sustainability components and an even lesser proportion explicitly promotes / incentivizes them. However, policy analyses of this nature require a much larger canvass of policy landscape. It also requires a deeper investigation into causal mechanism of sustainability aspects at various levels, constraints posed by lack of compliance, and loopholes in the existing regulations etc. Another challenge was designing measurement plan of the scheme impact at the cluster and firm level given the limited size of the sample studied. On one side, there were some change makers (e.g. in Bhopal) who were proactive in the acknowledging the problems and were also addressing them in the best possible way. On the other end, there were firms who hardly acknowledged the issues and mostly considered it as an impediment to their economic growth.

The major limitation was to develop a framework that not only acknowledges and addressees the problems posed by unsustainable development but is also applicable to the current context of Indian MSME sector; while being futuristic in its perspective.

3. Approach & Methodology

The first stage of the assignment comprised review of the global sustainability concepts and development of a theoretical construct for sustainability in Indian MSME sector. A secondary review of numerous research papers, sustainability guidelines such as Global Reporting Initiative (GRI) 3.1, National Voluntary Guidelines on Socio-Economic and Environmental Responsibilities of Business (NVG-SEE), examples and cases from developed and developing countries resulted in identifying and establishing causal mechanism of sustainability aspects. An exhaustive list of indicators associated with each of the aspects was subsequently identified.

In the second stage, the portfolio of DC-MSME schemes were analysed for direct and indirect acknowledgement of the sustainability aspects and were awarded scores and rating. The gaps in the existing schemes were identified (basis our primary interactions & inference) and specific recommendations were given to improve their sustainability ratings. In the last stage, an impact assessment framework was developed for measuring overall impact of the schemes.

3.1 Secondary study

Secondary research comprised literature review of global sustainability documents, and Indian MSME schemes documents. Some of the documents reviewed included: global Sustainability Frameworks such as NVG-SEE, GRI G 3.1 and international sustainability frameworks for SMEs and practices in sustainable policy design for SMEs etc. Other documents included: the Indian Planning Commission's report on MSME sector, Ministry of MSMEs' annual reports, Result Framework Documents, and existing evaluation studies on DC-MSME schemes

3.2 Primary study (Stakeholders consultation)

Stakeholder consultations consisted of individual interviews and Focused Group Discussions (FGD) with multiple stakeholders in four different regions in India - Hyderabad, Indore, Mumbai and Agra, with a concluding workshop proposed in Delhi. Structured (open-ended) questionnaires were used for individual meetings with the enterprises. These interviews were mainly to understand the environmental, social and economic risks and benefits faced by the MSME units, impact of the schemes availed on the units' operations and ways for improving scheme design.

Another objective of the primary research was also to understand awareness level of firms about existing policy support, challenges faced by them in accessing schemes and major bottlenecks in the scheme implementation. FGD participants in the four locations included presidents/ representatives of BMOs, DI officials, training institutes, NGOs, support groups, SME entrepreneur development centres etc. A final panel discussion is proposed to be conducted with representatives from the DC MSME office, DI office, BMOs and various support groups in Delhi.

4. Design Framework for “Sustainability Assessment” of the DC MSME Schemes:

4.1 Sustainability Design framework

The design framework is intended to evaluate the existing DC MSME schemes on sustainability aspects. The framework also serves as a policy design tool for future MSME schemes in an array of industrial and regional contexts.

The framework is granular in that it provides insights into which 'sustainability aspects' are impacted by the design of a particular scheme. The framework is also comprehensive as it can be applied to all the schemes under the aegis of the DC-MSME. The flexibility of the framework lies in its ability to examine specific parts of a scheme, and identify specific causal relationships between sustainability aspects relevant to the scheme. Finally, the design framework is replicable, as it can be applied to a particular industry / larger set of industries.

4.2 Applicability of the design framework

The framework lists various S-E-E aspects, against which the current and potential MSME schemes can be mapped along with detailed references for coverage and incentivisation provided in the scheme documents. All the relevant schemes have been analysed to assess coverage of the sustainability aspects across various components. The inclusion of such aspects has been further divided into direct and indirect coverage i.e. aspects that are directly addressed in the scheme (and articulated in the scheme document) and components that indirectly impact some of the sustainability aspects, respectively.

The scheme scores are calculated for each dimension, as per the sample mentioned in [Table E1](#) to arrive at sustainability score on S-E-E and finally an overall sustainability rating given in [Table E2](#).

We are providing a sample assessment of one of the non-NMCP schemes below. Rest of the schemes can be referred to in Section 3.5.1.

Calculating Sustainability-Scores for each of the schemes: process steps

1. Mapping schemes against Sustainability Aspects
2. Identifying 'intended objectives' in the scheme coverage
3. Calculating "Sustainability" scores (S-scores)

After factoring in for the presence or absence from the list of 'intended objectives', the final sustainability score is computed after taking mean average.

The Sustainability Score (S-Score) has been calculated as follows:

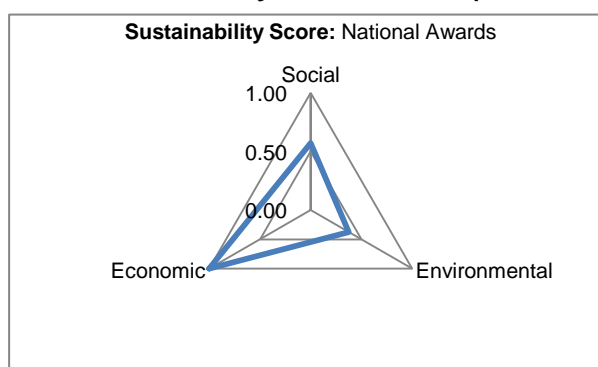
$$\text{Sustainability Score} = \frac{\text{Number of 'intended objectives' (S-E-E) covered in the scheme}}{\text{Total number of 'intended objectives' (S-E-E) mentioned}}$$

Note : -

The design of Government policies for the MSME sector in India has been to boost economic development while achieving regional and social equity in the country. However, these are, by far, the indirect outcomes. The focus of planning primarily has been on improving the economic status (and incomes) of enterprises, with all the schemes having 'economic benefit' as a clearly stated and articulated objective.

Accordingly, in order to have a much grounded comparison of such economically-oriented schemes, we have awarded a constant score of 1.0 to all the DC-MSME schemes on the economic dimension, so that the focus of analysis is shifted to the other lesser priority dimensions of sustainability i.e. the social & environmental dimensions.

Figure E1: Sustainability Performance (National Award Scheme)



National Awards Scheme: The objective of this scheme is to reward outstanding achievements by MSMEs in order to promote entrepreneurship in the sector. Sustainability score of the scheme in its current form is given in [Table E1](#) and shown in the figure below.

Table E1: Sustainability Performance (National Award Scheme)

| Sustainability Performance | Score |
|----------------------------|-------------|
| Social | 0.50 |
| Environmental | 0.50 |
| Economic | 1.00 |

Table E2: Sustainability Score for a sample scheme (National Awards Scheme)

| Dimensions/ Aspects | | Intended Objectives | Score |
|------------------------|--|---|-------|
| Social | Health and Safety of Stakeholders | Promotes improved working conditions | 1 |
| | | Improves workers' health and safety (medical/social) through preferential treatment and/or incentives | 1 |
| | | Encourages adoption of safe manufacturing practices and discourages hazardous manufacturing practices | 1 |
| | | Encourages adoption of quality certification/s aimed at improving health & safety processes etc | 1 |
| | | Addresses community health and safety concerns | 0 |
| | Social Inclusion & Equity | Incentivises vulnerable and marginalised groups for wage / self employment | 1 |
| | | Focuses attention on under-developed areas | 1 |
| | | Promotes human rights (including non-discrimination, collective bargaining, prohibition of child/forced labour etc) | 0 |
| | | Sensitises vendors and builds their capacities on social issues | 0 |
| | | Encourages adoption of social standard certification (SA 8000) | 0 |
| | | Encourages women entrepreneurs (facilitates gender equity) | 1 |
| | Governance, Ethics & Transparency | Encourages MSMEs to adopt practices that facilitate transparency of systems and processes (good governance, reporting, disclosures etc) | 1 |
| | | Promotes compliance with national laws / regulations | 0 |
| | | Supports representative associations of MSMEs for collective action and responsible advocacy | 0 |
| Environmental | Resource Efficiency | Promotes optimal use of natural resources and raw materials | 1 |
| | | Provides financial and technical support for process improvement, with an aim to reduce waste generation and water & energy consumption | 1 |
| | Emissions, Effluents & Waste Management | Supports management of hazardous material and effluent treatment (hazardous as well as non-hazardous) | 0 |
| | | Promotes re-use, recycling and proper disposal of waste | 0 |
| | | Incentivises measures to reduce air emissions, emissions of ozone-depleting substances etc, by promoting adoption of pollution control technologies/processes | 1 |
| | Climate Change adaptation and mitigation | Enhances awareness amongst MSMEs on challenges posed by climate change | 0 |
| | | Provides financial and technical support for production and adoption of energy efficient, renewable energy technologies, that help reduce GHG emissions | 0 |
| | | Funding studies to identify actual and/or potential environmental challenges due to climate change | 0 |

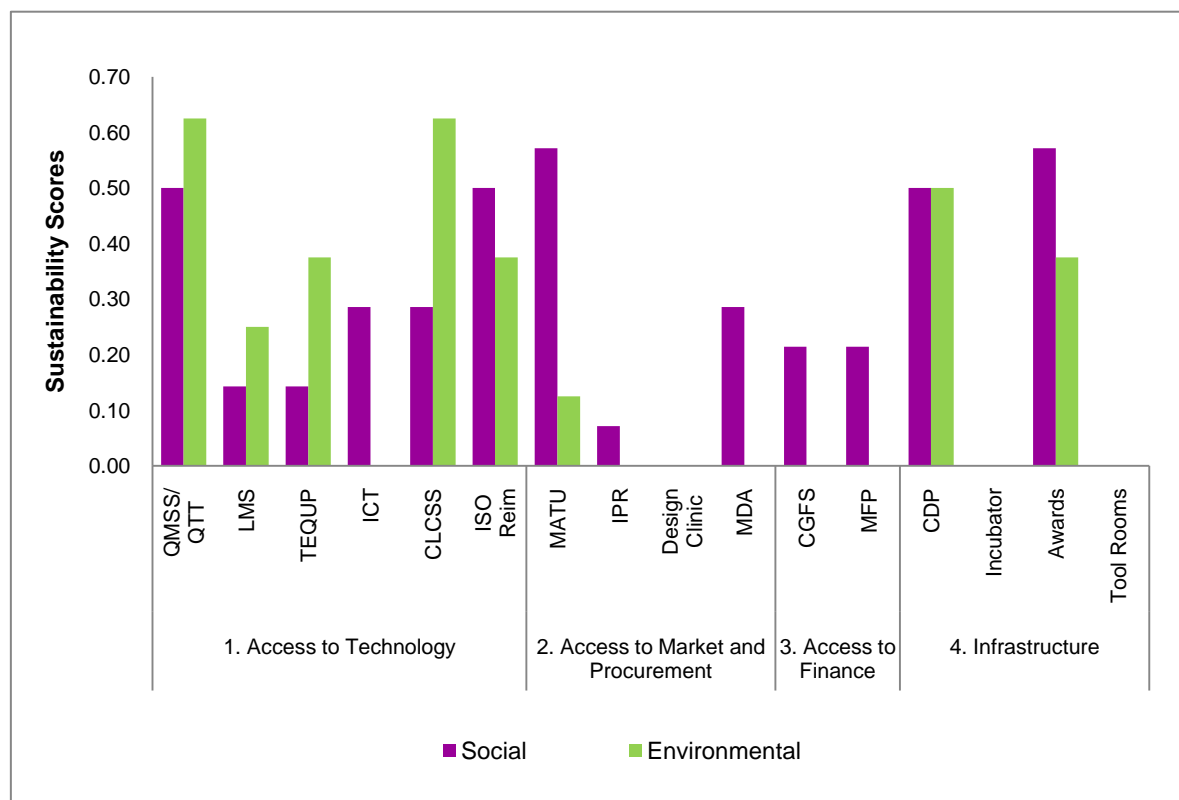
| Dimensions/ Aspects | | Intended Objectives | Score |
|------------------------|---|---|-------|
| Economic | Access to Finance | Enhances the quantum of institutional finance | 0 |
| | | Reduces the cost of capital | 0 |
| | | Encourages provision of equity, alternative finance and start up finance | 0 |
| | | Reduces barriers to access institutional finance (collateral requirement, financial illiteracy, bankers' awareness, inappropriate financial product/s etc) | 0 |
| | Access to Technology | Reduces the cost of technology upgradation | 0 |
| | | Enhances technology absorption capacity of the firm/s | 0 |
| | | Supports adoption of modern technology through information dissemination, increased awareness, better linkages etc | 0 |
| | | Supports adoption of Information and Communication Technology | 0 |
| | Infrastructure Support | Provides funding and other support (technology/market access etc) for upgradation of existing industrial infrastructure / creation of new infrastructure | 0 |
| | | Supports groups of firms/clusters, to create common infrastructure e.g. testing facilities, dissemination centre, display-cum-exhibition centre, warehouses, raw material banks etc | 0 |
| | Access to Business Development Services | Reduces the cost of availing Business Development Services from service providers and increases the availability of appropriate services/providers | 0 |
| | | Enhances the capacity of industry associations for scheme implementation and facilitates greater outreach | 0 |
| | | Promotes expert agencies for providing the firms with access to technical expertise / BDS | 0 |
| | Access to Market/s | Supports access to national and international markets | 1 |
| | | Provides funding and other support for organizing and/or participating in exhibitions, fairs, Buyer Seller Meets etc | 0 |
| | | Supports market analysis and intelligence gathering to bridge the demand:supply gap | 0 |
| | | Supports product development and diversification (design, quality, packaging, branding, certification) for increasing market presence | 0 |
| | Promoting innovation & research | Provides funding for in-house and/or joint industry Research & Development | 0 |
| | | Supports patent and trademark registration/s, for incubating & protecting potential business ideas | 0 |
| | Skill Development | Supports MSMEs to enhance the skills of their existing workforce | 0 |
| | | Creates 'new' skilled & employable workforce through specialized and contextual training programmes | 0 |
| | | Promotes and supports training institutions & intermediaries to build their capacities | 0 |

Note: 1 indicates presence of the intended objective in the scheme document, while 0 indicates the absence

4.3 Analysis of the DC-MSME Schemes on the Design Framework

A summary of the Sustainability inclusiveness for each of the 17 DC-MSME schemes been reviewed for this assignment is given in Figure E2.

Figure E2: Sustainability Inclusiveness of DC MSME schemes



As we see above, few of the schemes such as (a) Design Clinic, (b) Support for entrepreneurial & managerial development through incubators, and (c) Financial Assistance to Mini Tool Rooms, are presently lacking aspects of both environment and social sustainability, as inferred from our review of the scheme description and objectives. Compared to the above three schemes, three other schemes of (a) Building awareness on IPR, (b) Market Development Assistance, (c) Credit Guarantee Fund Scheme and (c) Scheme for Microfinance lack only the environmental aspects of sustainability.

Table E3: Presence of Sustainability Objectives

| Sustainability Objectives | Status (occurrence) |
|---|--|
| <u>SOCIAL DIMENSION</u> <ul style="list-style-type: none"> Improves workers' health & safety (medical/social) through preferential treatment and/or incentives Addresses community health and safety concerns Promotes compliance with national laws / regulations | Minimal (present / stated in 1-2 schemes) |
| <u>ENVIRONMENTAL DIMENSION</u> <ul style="list-style-type: none"> Enhances awareness amongst MSMEs on challenges posed by climate change Provides financial and technical support for production and adoption of energy efficient, renewable energy technologies, that help reduce GHG emissions | |

| Sustainability Objectives | Status (occurrence) |
|--|---------------------|
| <u>ECONOMIC DIMENSION</u> <ul style="list-style-type: none"> • Supports patent and trademark registration/s, for incubating & protecting potential business ideas • Creates 'new' skilled & employable workforce through specialized and contextual training programmes | |
| <u>SOCIAL DIMENSION</u> <ul style="list-style-type: none"> • Promotes human rights (including non-discrimination, collective bargaining, prohibition of child/forced labour etc) • Sensitises vendors and builds their capacities on social issues • Encourages adoption of social standard certification (SA 8000) | Absent |
| <u>ENVIRONMENTAL DIMENSION</u> <ul style="list-style-type: none"> • Funding studies to identify actual and/or potential environmental challenges due to climate change | |

When we look at the total coverage, of a total of 14 social, 8 environmental and 22 economic objectives, there are 8 social objectives (~58%), 5 environmental objectives (~63%) and 20 economic objectives (~91%), which are being addressed by the present portfolio of DC-MSME schemes; while only 42% of social, 37% of environmental and 9% of the economic objectives require attention from a "focus" perspective. The above cited pattern also supports the inference that the DC-MSME schemes are skewed towards the economic aspect. Given the relative insufficiency of a few of the objectives, there is sufficient scope to extend the design of the schemes to factor in these missing elements. Details on probable options for increasing sustainability orientation of the DC-MSME schemes has been presented in Section 3.5.1; with a summary provided under Table 7: Sustainability scores (S-Scores) for DC MSME schemes.

The suggestions to improve the sustainability performance vary as per the context of each scheme. On the social front, one of the most feasible options is to either incentivise the participation of women & backward groups in the scheme (inclusion criteria) or to include the role of local, resident communities (appraisal/impact criteria). On the other hand, it has been suggested that incentivisation of sustainable & environmentally responsible practices / processes / technologies can substantially help enhance the environmental performance of the DC-MSME schemes.

However, some of the schemes shall continue to lack elements of sustainability, such as the "Building awareness on IPR" and the "Scheme for Microfinance" will continue to have a low emphasis on the environmental dimension given the purpose & definition of the schemes.

4.4 Limitation of the sustainability design framework

- The coverage of sustainability aspects is defined purely by the acknowledgment of a particular aspect in the scheme document. The framework is silent on the 'degree' of coverage and incentives of sustainability impacts in the schemes.
- As per the framework, social and environmental aspects have been provided with an equal weightage for assessing sustainability scores. Ideally the weightages

could vary based on the scope of the scheme and relative significance of the aspect/ intended objectives with respect to the particular scheme.

- The description for aspects and their corresponding 'intended objectives' in the framework are meant to be indicative of various sustainability concepts, but are not meant to exclude alternative descriptions.
- As mentioned before, the S-score doesn't factor in the irrelevance of a particular aspect with respect to a scheme. In conclusion, a low social S-score does not necessarily translate into poor social performance in an overall sense. To be able to assess the actual performance of the scheme; a detailed study needs to be undertaken to determine relevance of different sustainability aspects to a particular scheme.

5. Impact assessment framework

The Impact Assessment Framework for DC-MSME schemes is designed in such a way that it can be aligned with the 'Result Framework Document' of PMES (GOI) and periodically fed into the reporting of the Ministry of MSME's RFD. The essence of the 'framework is to capture 'quantitatively and qualitatively' both intended and unintended impact of the scheme on the target beneficiaries as well as the external environment. This is achieved with the help of two sets of measurable indicators that can be used for measuring the impact of the schemes.

The first set of the indicators are associated with a 'group of schemes' whereas these 'groups' are adopted from the Planning Commission's designated six barriers to the growth of MSME sector. These indicators are directly linked with scheme objectives in the scheme document. The second sets of indicators are adopted from the 'scheme Design Framework' to address sustainability aspects of schemes and these are not acknowledged in the scheme objectives but implied.

Key features of the Impact Assessment Framework are as follows:

- Can be applied to the entire portfolio of DC-MSME Scheme - existing & upcoming
- Aligned with the GOI's RFD framework for ease of reporting and data collection
- Categorizes schemes as per the major constraints identified by Planning Commission, and accordingly, defines indicators that need to be measured under each constraint
- Aligned with the Sustainability Design Framework (discussed in section 4)
- Provide guidelines for type of data required, data sources & collection methodology

5.1 Measurement of the Impact Indicators

Measurements of the impact indicators require a mixture of secondary and primary data at various intervals. Though secondary data is available with various government departments / nodal agencies, collection of the same could be a challenge. While a number of indicators require primary data to be collected at firm/cluster level, this is a resource intensive process. Moreover, all these indicators need not be measured at similar intervals. Some of these indicators are more relevant for quarterly / annual data collection; while others need to be measured at a much longer interval.

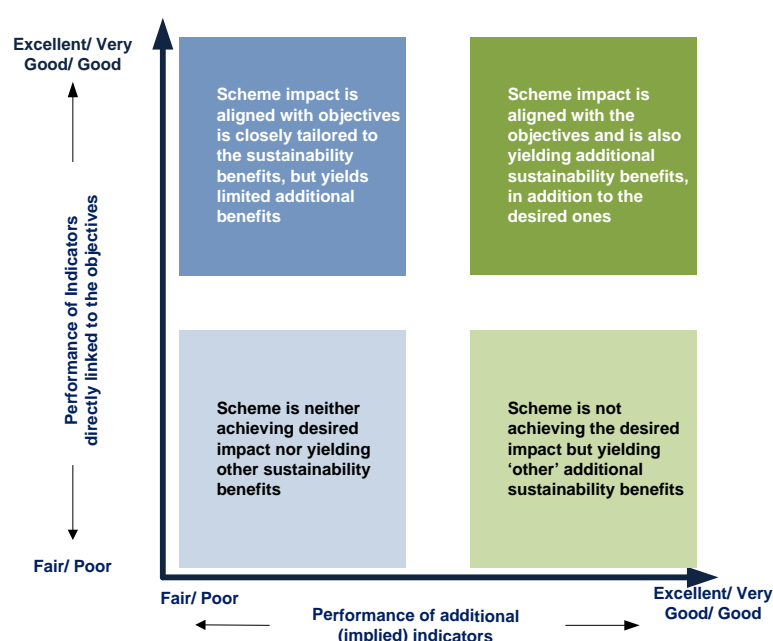
5.2 Analysis of the Impact Indicator(s)

As stated earlier, a scheme's overall sustainability performance (the S-Score) is reflected by the performance of two sets of indicators, viz. (a) indicators directly linked with the objective and (b) indicators not acknowledged in the objectives (but implied). The scheme performance should ideally be further assessed on three parameters:

- alignment of scheme performance with the stated sustainability objectives of scheme
- actual performance of the scheme in support of the stated sustainability objectives of the scheme (*not assessed in this report, but referred in Section 4.2*)
- sustainability benefits beyond the stated sustainability objectives of the scheme

The impact of a scheme is assessed as per alignment with stated objectives of the scheme and performance on additional sustainability indicators is explained as below:

Figure E3: Analysis of Impact Assessment of Schemes



1. Introduction

1.1. GIZ and the MSME-UP programme

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has been assisting in the process of promotion and modernisation of MSMEs in India with an aim to increase their competitiveness. In the process of doing so, it also aims to induce resource efficiency and cleaner production norms, to meet/enhance social and environmental standards across the MSME sector. GIZ is doing this by working closely with the Ministry of MSME and the Small Industries Development Bank of India (SIDBI), which are its main implementation partners under the 'MSME Umbrella Programme' (MSME-UP) - a four year project (2010-2014) and a bilateral collaboration between the Indian and German governments.

The overall objective of the MSME-UP is to improve the business and investment climate and service system to benefit MSMEs. This complements the efforts of the GoI in achieving its own development goals. The government envisages the role of private sector particularly industrial Micro, Small and Medium Enterprises (MSMEs) as engines of growth. However, MSMEs face several challenges in realising their full potential. On one hand, lack of access to financial and non-financial services remains a daunting challenge; on the other hand the government support programmes lack efficiency and effectiveness. In other words, neither the current business climate nor the existing environment for services fosters the development of the MSME sector. The three components of the MSME-UP thus contribute towards the achievement of this stated objective:

1. The first component of **"MSME financing and development"** focuses on strategy and policy advice as well as on advisory inputs regarding the development and introduction of innovative financial & non financial services for MSMEs. The Small Industries Development Bank of India (SIDBI) is the implementing partner for this component.
2. The second component, **"MSME support policies and programmes"**, is being implemented by Office of DC MSME of the Ministry of Micro, Small and Medium Enterprises (MoMSME) and concentrates on elements of MSME policy and the improvement of the efficiency and effectiveness of government promotion schemes.
3. The third component, **"MSME Development through Innovation System Promotion"** focuses on the development of quality service offerings by public and private institutions, which foster the innovative capacities of MSME and strengthen the innovation systems around them. The central goal of the activities is to support companies in bringing about sustainability and inclusive oriented innovations. The Excellence Centre for Sustainable Development of Confederation of Indian Industry (CII-CESD) is the executing agency for the same.

One of the indicators for assessing the success of the MSME-UP programme is that by the end of the programme: ***"at least 50 % of the public support schemes for MSME of the MoMSME contain approaches for the promotion of responsible business, and that take into account issues of ecology and resource efficiency, as well as social (e.g. gender/diversity, social standards) and stakeholder aspects"***. As part of this programme, it was planned to review all the schemes of the DC-Ministry of MSME (DC-MSME) on their approach towards the promotion of Responsible Business behaviour, taking into account the Economic, Environmental and Social issues and stakeholder aspects. The present assignment was contracted to m/s KPMG to conduct an independent review of the schemes and suggest an incremental Impact Assessment Framework going forward.

1.2. Scope and purpose of this assignment

The Micro, Small and Medium Enterprises (MSME) sector contributes significantly to the growth of Indian economy by contributing to more than 45 percent share of the manufacturing output, employing more than 69 million persons and contributing about 40 percent of the total exports from the country (4th Census of MSME Sector). It has more than 29 million units spread across the country, and is the second largest employer outside of agriculture. The MSME sector is regarded as the engine of inclusive growth in the country as nearly 50 percent of the MSMEs are owned by disadvantaged groups of society, or by people at the bottom of the pyramid, as per data from the 2006-07 Census.

Realising the significance of MSMEs in promoting inclusive growth, the Government of India has taken a number of policy initiatives in last few years. The PM's Task Force (2009) made 85 recommendations for advancing MSME growth, most of which are under implementation. To further the cause of MSME, the Planning Commission constituted a Working Group on MSMEs growth for 12th Five Year Plan (2012-17) to carry forward the recommendations of the Task Force and suggest specific action plan and milestones to be achieved within the 12th FYP period, focussed on six focal points, viz. (i) Credit and Finance, (ii) Technology and Innovation, (iii) Infrastructure, (iv) Marketing, (v) Skill Development & Training and (vi) Institutional Structure.

The Office of DC-MSME, Ministry of MSME, GOI and the GIZ are jointly implementing the "MSME Policies and Programmes" component (no. 2) of the MSME-UP. It is anticipated that the increased effectiveness/efficiencies of the policies and schemes would boost the responsible competitiveness of the sector and contribute to economic growth, job creation and balanced regional development, thus promoting increased responsible competitiveness of MSME. For encouraging responsible business practices by MSMEs in its policy planning, it is imperative that the ongoing schemes of DC-MSME must be analysed on the positive and negative economic, environmental and social impacts. Accordingly, it has been planned to review all the schemes of the DC-MSME on their approach towards the promotion of Responsible Business behaviour.

A thorough analysis of the existing schemes of the DC-MSME would thus help the Ministry and other relevant stakeholders to understand the intended/unintended social, economic and environmental consequences of policy measures by assessing their impacts, helping them eventually conceptualise policies and targeted programmes that actively promote sustainable and inclusive economic development.

The list of schemes to be assessed was:

1. National Manufacturing Competitiveness Programme (NMCP) scheme under the 11th FYP
 - 1.1. Financial assistance on bar code
 - 1.2. Support for entrepreneurial and managerial development of SMEs through incubators
 - 1.3. Scheme for "enabling manufacturing sector be competitive through quality management standards and quality technology tools"
 - 1.4. Scheme for "building awareness on intellectual property rights" (IPR) for the micro, small & medium enterprises (MSME)
 - 1.5. Lean manufacturing competitiveness scheme (LMCS) for micro small and medium enterprises (MSMEs)
 - 1.6. Design clinics scheme for design expertise to micro small and medium enterprises (MSMEs)

- 1.7. Marketing assistance and technology up-gradation scheme for micro small and medium enterprises
- 1.8. Technology and Quality Upgradation support to MSMEs (TEQUP)
- 1.9. Promotion of information & communication technology (ICT) in Indian MSME sector
2. Credit Linked Capital Subsidy Scheme for technology up gradation & small enterprises
3. Cluster Development Programme (MSME-CDP)
4. Credit Guarantee Fund Scheme for micro and small enterprises
5. Quality up gradation/environment management for small scale sector through incentive for ISO 9000 / ISO 14001 / HACCP certifications
6. Market Development Assistance scheme for micro/ small manufacturing enterprises/ small & micro exporters (SSI MDA)
7. Guidelines for the scheme to render financial assistance to states/state agencies for setting up Mini Tool Room and training centres
8. Scheme of Micro Finance Programme
9. National award scheme/ guidelines

The objective of the assignment is to assess all the schemes under the aegis of the DC-MSME (listed above) on whether and how the aspects of “sustainability” and “inclusion” have been integrated into them. The assessment of the schemes has been done from the perspective whether they address the economic, environmental and social aspects of MSMEs and also whether there is a provision to address the challenges faced by the MSMEs in adhering to ‘responsible business practices’. The specific objective of the assignment is as mentioned below:

1. Develop a Framework for ‘sustainability assessment’ of the schemes on various S-E-E indicators on an ‘as-is’ basis
2. Analysis of DC-MSME Schemes on this sustainability framework
3. Develop an Impact Assessment Framework for DC-MSME, from a ‘to-be’ perspective

The chapters in the report are divided in the following order:

- **Chapter 2** provides an understanding of the Sustainability Concept (and its reference to the MSME sector) globally and an introduction to the MSME policy context in India.
- **Chapter 3** outlines the Design Framework (on sustainability aspects) for MSME policies in India, its application and limitations. It then maps the existing DC-MSME schemes to assess the gap and outlines recommendations to improve the scheme with respect to the Sustainability Concept (S-E-E).
- **Chapter 4** suggests an Impact Assessment Framework for DC-MSME schemes, the measurement indicators and methods of measurement.

2. Understanding Sustainability among MSMEs

2.1. The Global Sustainability Concept

The global dialogues on sustainability are broadly united by the concern that today's gains should not come at the expense of tomorrow's security. At the highest level, **Sustainability can be thought of as having three major components: Social Development, Environmental Protection and Economic Development.**

Sustainability as a concept covers a number of related phenomena. Sometimes two phenomena are correlated, because they are both caused by a third: noise pollution and air emissions do not cause each other, but they tend to correlate because they are both caused by increased industrial production. Moreover, pursuing the different aspects of sustainability often involves *tradeoffs*, and so some indicators may also correlate negatively, or unreliably. E.g. introduction of a new technology may reduce employability, even though it facilitates increased production. It is but imperative that any sustainability assessment should factor in these interplays; and accordingly, most of the global Impact Assessment design frameworks acknowledge the co-existence of these three components of Social-Environmental-Economic (S-E-E).

2.1.1. Sustainability aspects of a select sample of global MSME policies

Some of the leading developed nations routinely assess the non-financial impacts of policy options, increasingly taking into account environmental and social impacts of their policies. Pioneers of this approach include the UK, the European Commission, and Germany. The three tables (below) depict the sustainability parameters considered in policy design and impact assessment frameworks by these countries.

Table 1: Topics considered in the UK Sustainability Impact Assessment

| Economic Impacts | Environmental Impacts | Social Impacts |
|--|---|---|
| <ul style="list-style-type: none">• Competition• Small firms impact | <ul style="list-style-type: none">• Greenhouse gasses• Air quality• Water quality• Flood risk• Biodiversity• Landscape• Noise | <ul style="list-style-type: none">• Health and wellbeing• Human rights• Justice system• Rural proofing• Gender equality• Race equality |

Table 2: Topics considered in the European Commission Sustainability Impact Assessment

| Economic Impacts | Environmental Impacts | Social Impacts |
|--|--|--|
| <ul style="list-style-type: none">• Competition• Trade and investment flows | <ul style="list-style-type: none">• Climate• Energy usage• Air quality | <ul style="list-style-type: none">• Employment and labour markets• Standards and rights related to jobs• Social inclusion and protection |

| Economic Impacts | Environmental Impacts | Social Impacts |
|---|---|---|
| <ul style="list-style-type: none"> • Operating costs • Property rights • Macroeconomic environment | <ul style="list-style-type: none"> • Biodiversity • Water quality • Soil quality • Resource base • Waste Production • Land use • Likelihood of environmental risks | <ul style="list-style-type: none"> • Gender equality and non-discrimination • Individuals, private and family life and personal data • Governance participation • Social protection and healthcare • Social impacts in third countries |

Table 3: Topics considered in the Germany Sustainability Check

| Intergeneration equity | Quality of life | Social cohesion | International responsibility |
|--|---|---|---|
| <ul style="list-style-type: none"> • Resource protection • Climate protection • Renewable energies • Land use • National debt • Provision for future • Economic stability • Innovation • Education and training | <ul style="list-style-type: none"> • Economic prosperity • Mobility • Farming • Air quality • Air pollution • Health and nutrition • Crime | <ul style="list-style-type: none"> • Employment • Perspectives for families • Equal opportunities • Integration | <ul style="list-style-type: none"> • Development • Cooperation • Opening markets |

While it is evident from the above that the developed nations have clearly outlined sustainability aspects in their respective Sustainability Framework/s, thus fostering responsible behaviour among their constituent MSMEs; a further analysis of MSME schemes across the globe (Mexico, Germany, Singapore, Malaysia, etc) reveal the following process steps / strategies to have helped further the Social and Environmental performance of MSMEs in particular (refer Annexure A.1 for more details):

- **Some of the countries have a ‘single window’ system** in place to provide a package of Business Development Services **through the aegis of a ‘national level coordination agency’**, in nature of a 1-stop shop. This ensures the provision of a bouquet of services/expertise (including subject matter expertise) to MSMEs in a comprehensive manner and facilitates optimal utilisation of resources (time and money both). The COMPITE and CRECE initiatives in Mexico are example of such approaches.
- **Specific targeting** of services at specific segments of the populations / specific categories of enterprises, through targeted incentives / BD support can help promote enterprises in those desired segments, as has been the experience of Germany in supporting women enterprises through the ‘bundesweiten grunderinnenagentur’.
- **Exploring use of innovations such as ‘vouchers’** helps facilitate access of MSMEs to a wider range of Business Development Services at a lower cost, thereby

increasing cost efficiency as well as outreach. E.g. REMake Project for improving material efficiency in UK and Germany.

- **Specific financial incentives** (such as subsidies for energy efficient infrastructure) for furthering environmentally desirable infrastructure - plant & machinery, helps in development of energy efficient infrastructure, as has been experience with the “Design for Efficiency” scheme and the “3R Fund” experience in Singapore. Similarly, providing financial support to improve the energy performance of commercial buildings (the BREEF scheme in Germany), leads to improved energy performance and increased green behaviour. Promoting water conservation through financial support for better water conservation and recycling encourages companies to be more efficient in their water conservation efforts, as seen in Singapore.
- The provision of **soft loans** to further adoption of desired technologies (such as green technology) helps accelerate the rate of adoption of the same, as has been the case with the “Green Technology Financing Scheme (GTFS)” in Malaysia.

2.1.2. Benchmarking with ‘peer’ international schemes

To understand the differences between the policy development and implementation process between India and that of a peer country (Malaysia), a benchmarking of the GTFS (Malaysia) with a peer scheme of CLCSS (India) has also been provided below.

Green technology Financing Scheme (GTFS) in Malaysia v/s Credit Linked Capital Subsidy Scheme (CLCSS) in India

Economic Aspects: On the economic front, the CLCSS primarily provides a subsidy at the rate of 15 percent of the eligible investment in plant and machinery under the scheme, with the maximum limit of eligible loan being Rs. 100 Lakhs. *In contrast, the GTFS provides interest subsidies (interest subvention) of 2 percent from the total interest rate charged and government guarantee of 60 percent on the total approved loan with a maximum limit of RM50 mn (~ Rs. 94 Cr) per company for “producers of green technology” and RM10 mn (~ Rs. 19 Cr) per company for “users of green technology”.* Unlike GTFS, CLCSS does not distinguish between the “users” and “producers” of green technology, and only incentivises the users of specific technologies.

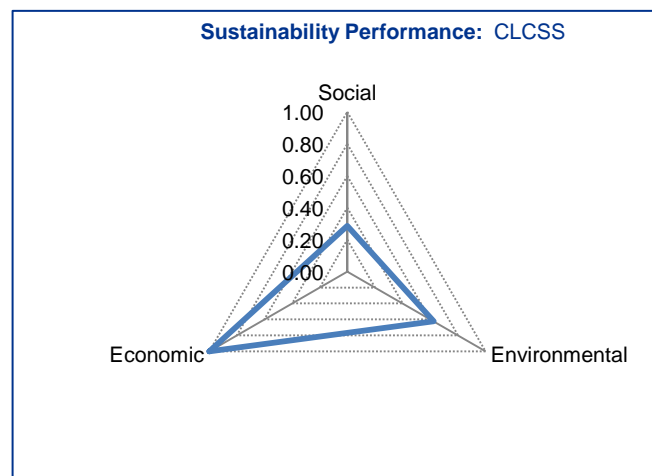
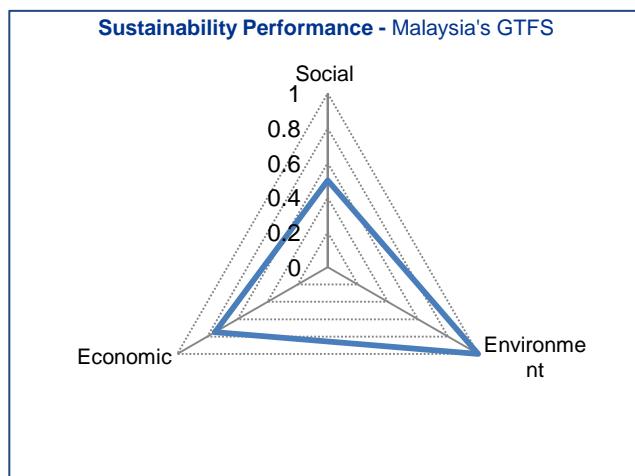
Social Aspects: CLCSS does directly incentivise improvements in community and worker health and safety through green technologies. Compared to this, *GTFS stresses on reducing the social impact on communities, and incentivises provision for adequate amenities and social infrastructure for workers* as part of sustainable site planning and management. However, on the other hand, GTFS makes no provisions for socially disadvantaged groups as done under CLCSS.

Environmental Aspects: *GTFS covers various eco-friendly technologies that facilitate better management of material resources, sustainable water management, reduced air pollution and GHG emissions and improved biodiversity management.* Although CLCSS covers subsidies for environmental control devices, waste and effluent disposal technologies, pollution control equipments etc, it doesn’t cover various technologies for construction of green buildings, sustainable transport and logistics and for biodiversity management. Moreover, CLCSS promotes technologies in pre defined sectors and industries. *There is scope to include more green technologies in the current list of technologies in CLCSS and to make eco-friendly technologies industry agnostic, as has been done under GTFS.* Instead, the evaluation criteria for awarding the scheme can include a criterion on ‘relevance of the technology to a particular sector’.

Figure 1: Comparison of S-E-E performance of peer schemes

| Dimensions | Social | Environ | Economic |
|------------|-----------------------|-----------|------------|
| Score | 0.5 | 1 | 0.75 |
| Inference | Moderately Consistent | Congruent | Consistent |

| Dimensions | Social | Environ | Economic |
|------------|---------------------|------------|-----------|
| Score | 0.29 | 0.63 | 1.0 |
| Inference | Slightly Consistent | Consistent | Congruent |



The above benchmarking is suggestive of the futuristic thought process of the State of Malaysia, which incentivises both the demand (users) and the supply (producers) side under the GTFS, thus providing policy/financial support for creation as well as adoption of green technology by looking at the entire value chain. Additionally, the GTFS also talks about promoting technology(s) that improves the status of social and environmental infrastructure as well as the production processes themselves. Compared to the GTFS, the CLCSS is a bit restrictive in its outlook (fewer technologies) as well as focus (user centric) w.r.t. social and environmental aspects.

Similar to the CLCSS, most of the DC-MSME schemes have a strong performance on the Economic dimension, while having a comparatively lesser emphasis on the other two dimensions: Social & Environmental.

2.2. Sustainable Development in the Indian context

2.2.1. Sustainability and MSMEs in India: challenges & constraints

The global policy debate around inclusive growth has resulted in increased attention on the non-economic impacts of MSMEs. Government and Civil Society are now increasingly calling upon businesses to take greater accountability for their actions & impacts. The management of external environmental and social risks is now acknowledged as important for long-term business success. Some recent examples reiterate the importance of Environmental and Social Risk Management and regulatory preparedness as critical to business continuity. In January 2013, the National Green Tribunal directed for a comprehensive scrutiny of 275 industries that include SMEs in Ghaziabad, after it was brought to its notice that several highly polluting industrial units were functioning without adequate checks and controls. These examples, supported by our stakeholder interactions, suggest that MSMEs in India lack awareness of

environmental and social risks posed by their operations and follow a reactive approach to risk mitigation.²

It is only in those instances where investors/lenders (such as the IFC, ADB etc) stipulate minimum standards on social and economic obligations, that a few of the Indian MSMEs have been compelled to work/report on their sustainability performance. However, MSMEs need to be educated that with adequate environmental & social risk management and opportunity assessment, they stand to significantly gain from sustainability initiatives. Companies have demonstrated that if non-financial factors and their impacts are managed effectively, they accrue clear benefits in terms of risk management, cost and efficiency savings, brand enhancement and innovation.

However, issues such as the **lack of incentives, paucity of time and resources, high cost of compliance and risk management and lack of awareness of environmental and social issues etc are some of the bottlenecks** that continue to hamper MSMEs' progress on sustainability behaviour in India. An initial review of the MSME scheme documents also suggests that most of the MSME schemes are designed in response to specific bottlenecks identified for a particular sector / geography, where a large number of potential beneficiaries are located. However, **many of the schemes have inherent design problems**, such as

- **duplicity of scheme objectives** (overlap between schemes),
- **absence of a targeting strategy** (not specific as to which segment of the micro / small / medium is to be specifically targeted under a scheme),
- **inadequacy and/or lack of financial incentives** to meet the specific objective, and
- **delays due to cumbersome nature of application and approval processes** etc.

In addition, the 4th All India Census on MSMEs (2006-07) yields the following results, which must be acknowledged and factored in during the planning stage to arrive at a sustainable 'policy design framework' :

- **Low registration among MSMEs:** approximately 94 percent of the MSMEs are unregistered (of these, nearly 99% are the micro enterprises). This finding suggests that data on economic, social and environmental parameters is virtually absent for a large majority. Furthermore, stakeholder interactions suggest that even these limited numbers of registered owners are also unaware of sustainability issues and are not mandated to capture data on various social and environmental parameters. With lack of any dataset, the DC-MSME will not be able to accurately ascertain the sustainability issues/needs of MSMEs, which forms the cornerstone of designing a 'sustainability policy'.
- **Skew in gender equity:** approximately 7 percent of MSMEs (~ 1.92 million) in India are women owned and only 10 percent of the registered MSMEs in India are managed by women (~ 0.16 million MSMEs). These figures indicate gender imbalances in the sector which must be bridged by encouraging & incentivizing women entrepreneurs and creating conducive social conditions to support women-based enterprises.
- **Limited access to finance:** about 93 percent of MSMEs have no 'access to finance' and are self financed. Only 5 percent of the MSMEs access finance through institutional sources while 2 percent source the same from non-institutional sources. Ongoing access to finance is the foundation for sustainability of an enterprise. Any sustainable policy framework should prioritise this area and suggest alternative financing options in regions where access to finance is limited.

² Source: KPMG web-based research

- **Skew in Social equity:** entrepreneurs from the SC & ST category together represent only about 11 percent of the MSME owners in India. This suggests that the current policy design is not sufficiently incentivising certain socially disadvantaged groups. A sustainable policy framework should account incorporate relevant measures to promote entrepreneurship amongst such categories.

To address these design, process and access issues (which are beyond the MSME's own sphere of influence), the government's support becomes important in (a) fostering an enabling regulatory environment, (b) capacitating MSMEs on environmental & social risk management aspects, and (c) in preparing MSMEs for existing / upcoming regulations and helping them conform to international standards on sustainability. These should be targeted at helping MSMEs regularise themselves by way of easing registration and facilitating ease of access to finance.

In this context, the DC-MSME schemes need to be modified / adapted to incorporate sustainability perspectives to make the MSMEs respond better to environment and social risks, while at the same time, also enhancing their competencies to be better tap the opportunities, and thus positively influence the social, environmental and economic performance of MSMEs.

2.2.2. Sustainability and MSMEs in India : recent developments

The increasing focus on Sustainable Development in India is showcased by a gradually evolving regulatory framework, high financial penalties for environmental damages, delays in project approvals due to lack of robust environmental and social impact assessment frameworks, and increasing investor and public interest in environmental and social effects :

- The **regulatory framework in India is fast evolving** as evidenced by the recent SEBI mandated disclosure of ESG performance as per the National Voluntary Guidelines (NVG) on Social, Economic & Environmentally responsible behaviour, provisions for Corporate Governance and CSR in the Company's Bill (2012)³ etc.
- Other than regulatory requirements, the **risks of closure and penalties due to environmental non-compliance and delay in project approvals are also seen as drivers of incorporating sustainability into a project's lifecycle.** For instance, by Aug 2012, delays in environmental clearances for infrastructure projects were estimated to cost the sector over Rs 520 billion. In another instance, a fine of Rs 1 billion was levied on a company for a gas leak that led to SO₂ emissions beyond permissible norms.
- A third important driver of sustainable development in India is the **increasing investment by developmental financial institutions (FIs)** such as IFC, OPIC, JBIC, who have a mandate of socio-environmentally responsible lending etc. For instance, in 2012 alone, IFC invested \$3.95 billion (~9 percent of its portfolio funds) in India, making India number 1 in terms of IFC account exposure.
- Finally, **rising public interest and growing consumer awareness on environmental and social causes** is building pressure on Indian corporates (as well as MNCs) to assume greater accountability for environmental and social risks due to their operations.

All these drivers may have significant implications for MSMEs in the coming future, particularly the constantly evolving regulations on environmental and social aspects, and potential investments in MSMEs by FIs could become increasingly more contingent on strong Environment-Social-Governance (ESG) performance.

³ The Cos. Bill (2012) is now approved by the Indian Parliament, and is in process of being drafted into an Act

2.2.3. Sustainability and MSMEs in India: key learnings & way forward

A collation of the feedback of various stakeholder consultations (held in Mumbai / Hyderabad / Indore / Delhi) suggest that the existing schemes of DC-MSME need policy and process level improvements, to help improve its targeting as well as focus. Accordingly, some meta recommendations (addressing scheme design & implementation aspects) are being suggested across the entire portfolio for roll out :

- Availability and access
 - There is a need to *simplify* the scheme document and making it available to MSMEs in the *local language/s*.
 - For facilitating *scheme dissemination* and *awareness generation*, it is suggested to set aside *appropriate funds* earmarked for the purpose. E.g. advertising expenses, mobility expenses etc.
 - The DC-MSME could consider engaging the DICs and BMOs for dissemination of scheme information, as it may help increase its outreach.
- Targeting strategies
 - *Incentivising MSMEs* that are *in compliance with/exceed regulatory requirements* on environmental and/or social standards, could enhance the perception of these MSMEs as responsible & respectable actors, and may consequently, help induce responsible behavior amongst the peer MSMEs.
 - Making a distinction between the needs of existing and established entrepreneurs, *start-ups could be considered for more focus* in the scheme document, through targeted incentives.
- Process monitoring and feedback aspects. The consultations indicate the need for a structured mechanism to further stakeholder consultations for designing/improving schemes and can be proposed as follows.
 - Currently, the focus of scheme monitoring is on 'whether' the targets are being met and not on 'how' those targets are met. For making the monitoring process a more learning & incremental exercise, the DC-MSME should consider making the *monitoring process more qualitative and process-based* in its perspective.
 - Further, the DC should consider a *system of periodic reporting and monitoring* across all the schemes, so that the processes could be documented on a periodic basis and correctives brought in a timely manner.
 - A formal '*grievance redressal mechanism*' should be considered across all the DC-MSME schemes. The grievance cell should include critical stakeholders and adequately address the grievances of unit owners, industry associations and other scheme beneficiaries.

Given that these meta-recommendations are valid across the spectrum of DC-MSME schemes, the implementation of the same could be considered prior to looking at the scheme-specific recommendations. Thereafter, specific recommendations could be explored for their (a) direct and/or (b) indirect impacts and the potential degree of impact, to arrive at a Projected 'to-be' scenario, which shall then show the incremental improvements, against the 'as-is' scenario. *A sample template for the same is being provided in the attached Annexure 4 (spreadsheets).*

For the scheme specific recommendations, the sub-sections on scheme analysis can be referred to in the next Chapter.

The Table 4 below provides a summary of DC-MSME schemes in India with details of scheme components, implementing agency and target group.

Table 4: A brief overview of the DC MSME schemes (to inform design of the analysis framework)

| | Scheme name | Implementing Agency | Key Components | Directed at |
|----------|--|--|--|------------------------------|
| 1 | National Manufacturing Competitiveness Programme (NMCP) | | | |
| 1.1 | Market Assistance and Technology upgradation in MSME & Financial assistance on developing Bar code | Screening-cum-Steering Committee (SSC) headed by the Additional Secretary & Development Commissioner (MSME), Government of India | <ul style="list-style-type: none"> • Skill Development Courses • Awareness Programmes • Competition studies • Financial assistance on certification and bar code | Firms/ Cluster/ Institutions |
| 1.2 | Entrepreneurial and managerial development of SMEs through incubators | IITs, NITs, Engineering Colleges, Technology Development Centres, Other R& D institutions etc | <ul style="list-style-type: none"> • Setting up Business Incubators under Technology Host Institutions | Institutions |
| 1.3 | Enabling manufacturing sector be competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT) | Office of the Development Commissioner (MSME) by involving expert Organisations or by using in-house expertise wherever available. | <ul style="list-style-type: none"> • Courses, workshops, awareness campaign on 6 Sigma, Kaizan etc in technical institutions • Set up Competition Watch. Implement QMS/ QTT in selected MSMEs clusters | Clusters/ Firms |
| 1.4 | Scheme for "building awareness on IPR" for MSMEs | Screening-cum-Steering Committee (SSC) headed by the Additional Secretary & Development Commissioner (MSME), Government of India. In wider consultation, a Project Implementation Committee (PIC) under an IPR expert. | <ul style="list-style-type: none"> • Awareness/ campaigns, workshops, trainings, assistance in grants on Patents, GI, interaction with international agencies | Clusters/ Firms |
| 1.5 | Lean Manufacturing Competitiveness Scheme (LMCS) for MSMEs | DC (MSME) by Special Purpose Vehicles (SPVs) in each cluster. | <ul style="list-style-type: none"> • Consultation on LMS such as Just in Time, 5S etc. | Clusters |
| 1.6 | NMCP setting up Mini Tool Rooms & training centres under PPP mode | State agencies / departments | <ul style="list-style-type: none"> • Skill Development Courses, setting up tool rooms in PPP Mode | Clusters |
| 1.7 | Design clinics scheme for design expertise to MSMEs (manufacturing) | DC-MSME (through National Institute of Design, Ahmedabad) | <ul style="list-style-type: none"> • Awareness through seminars, workshops and Design Need Assessment Survey and funding assistance for engaging design consultants | Firms/ Cluster/ Institutions |

| | Scheme name | Implementing Agency | Key Components | Directed at |
|------|---|---|--|------------------------------|
| 1.8 | Marketing assistance and technology up-gradation scheme for MSMEs | Screening-cum-Steering Committee (SSC) headed by the Additional Secretary & Development Commissioner (MSME), Government of India | <ul style="list-style-type: none"> • Skill Development Courses Awareness Programmes • Competition studies • Financial assistance on certification and bar code | Firms/ Cluster/ Institutions |
| 1.9 | Scheme Technology And Quality Upgradation support to MSMEs (TEQUP) | Screening-cum-Steering Committee (SSC) headed by the Additional Secretary & Development Commissioner (MSME), Government of India | <ul style="list-style-type: none"> • Awareness building on EET, CDM, • Financial assistance on implementation and acquiring certification, setting up of CCA | Clusters/ Firms |
| 1.10 | Promotion of ICT in the Indian MSME sector | Project Monitoring & Advisory Committee (PMAC) will be constituted under the Chairmanship of Additional Secretary and Development Commissioner (AS & DC-MSME) | Support of basic ICT infrastructure, <ul style="list-style-type: none"> • Create awareness/ Sensitize/ Train MSMEs on potential benefits of ICT tools such as ERP, cluster specific software solutions, e-marketing, knowledge networks, etc, and promote their adoption in the entire chain of business from procurement of raw material to after sales & service | Clusters/ Firms |
| 2 | Micro, Small & Medium Enterprises - Cluster Development Programme (MSME-CDP) | DC-MSME | <ul style="list-style-type: none"> • Diagnostic Report, Soft interventions such as Technical Assistance, Capacity Building, Market Development, Detail Project Report, • Hard components such as Common Facility Centers, Testing Facilities, Design center, Product display center, EFT, Training centers, R&D Center, Raw material/ product storage facilities, Information centers, • Infrastructure development such as land development, water facilities, drainage, canteen, power distribution etc | Clusters |
| 3 | Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of Small Scale Industries (SSI) | Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are the nodal agencies | <ul style="list-style-type: none"> • Capital subsidy to SSI units, including tiny units, on institutional finance availed of by them for induction of well established and improved technology in selected sub-sectors/products approved under the Scheme | Firms |

| | Scheme name | Implementing Agency | Key Components | Directed at |
|---|--|---|--|-------------------------------|
| 4 | Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) | Small Industries Development Bank of India (SIDBI) in association with Pvt & Public sector lending institutions | <ul style="list-style-type: none"> Credit facilities supported by Guarantee to extent of 75-80% of amount availed under facility with a cap Rs. 10 million | Financial Institutions/ Firms |
| 5 | Reimbursement of costs incurred through ISO 9001 Certification | DC MSME | <ul style="list-style-type: none"> Reimbursement of cost incurred in acquiring ISO 9000 / 14001 certification | Firms |
| 6 | Market Development Assistance Scheme for Micro/ Small manufacturing | DC-MSME | <ul style="list-style-type: none"> Participation in International Trade Fairs/ Exhibitions under MSME India stall Sector specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation Initiating/ contesting anti-dumping cases by SSI Associations, Reimbursement of 75% of one time registration fee | Firms/ Cluster/ Institutions |
| 7 | Financial assistance to states/state agencies for setting up mini tool room and training centres | DC-MSME | <ul style="list-style-type: none"> Assistance for setting up Training Facilities Nucleus Centre for providing Consultancy, information service, documentation etc, and common facility Centre to assist in product and prototype development | Clusters |
| 8 | Scheme for Microfinance Programme | SIDBI | <ul style="list-style-type: none"> Arranging Fixed Deposits for MFIs/NGOs and Training & Studies on Micro-Finance via SIDBI, Institution Building for 'Intermediaries' for identification of viable projects | Institutions |
| 9 | National Award Guidelines | DC-MSME | <ul style="list-style-type: none"> Seven National Awards (First, Second, Third, Special Category for Women, SCs/ STs etc) given to under four categories for 'outstanding efforts' R&D', quality products, and for entrepreneurship services | Firms |

3. Framework for assessing sustainability aspects in MSME schemes

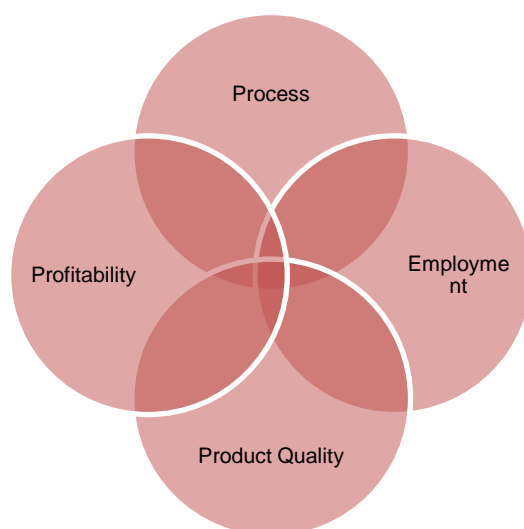
3.1. Salient features of the design framework

The framework is intended to be useful for evaluating existing and potential schemes, and useful as a policy evaluation tool in a variety of sectoral contexts. Thus the framework is designed to be:

- 1) **Granular:** the design framework will provide insights as to which sustainability aspects are impacted by a particular scheme. It will also summarily indicate the number of schemes fulfilling an intended objective; and which of the objective/s is relatively unaddressed by any scheme.
- 2) **Comprehensive:** if the framework is applied to all the schemes under the DC-MSMEs' umbrella, the framework will show the extent to which the policy as a whole implicates all the identified sustainability aspects and their underlying objectives
- 3) **Flexible:** the framework is flexible to accommodate improvements and to reflect new understandings of how sustainability aspects work.
- 4) **Replicable:** the framework can be used to examine the sustainability of a scheme at a national level and/or can be applied to a particular sector, or to all sectors to which the scheme applies.

3.2. Major causal linkages between sustainability concepts

Sustainability, as a concept, touches on a number of complex, interrelated social, economic and environmental processes. One important step in developing a holistic framework requires identifying the major causal linkages.



Changes in the scale and scope of a firm's operations affect **revenues** and **employment**, as do the **processes** that the firm employs, which may be more mechanised or more labour intensive. The firm's processes determine **product quality** as well as output levels, which in turn affect **profitability**. Profits in turn can be used to fund R&D and facilitate reinvestment to

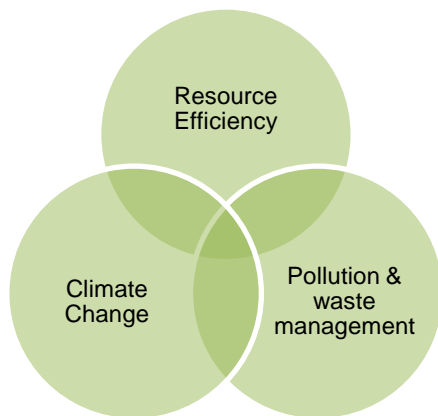
further expansion of the business.

Other phenomena are similarly linked: when the firm generates employment, it also impacts on contractual terms that impact social welfare.

Worker incomes, health & safety and mobility, affect not only the workers themselves, but their



families and the **communities** where they live. In the Indian context, migration is a major socioeconomic phenomenon, and so employment is often connected to migration patterns and broader demographic issues. Similarly, caste & gender equity is another important consideration.

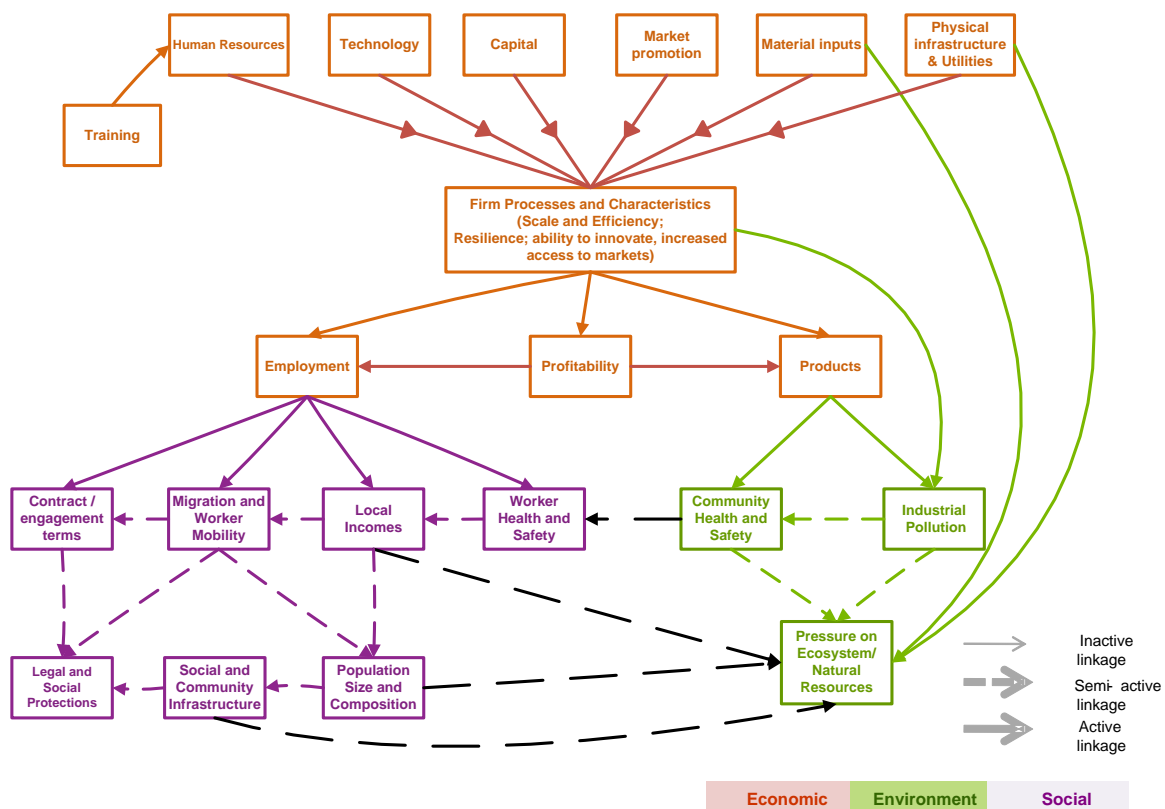


Besides the economic and social aspects, there are also important causal linkages between the firm's behaviour and the surrounding physical environment: economic activity – in particular industrial activity – which requires physical infrastructure and utilities, as well as material inputs. This impacts the availability of specific **natural resources and their utilisation**, but also

has an effect on the broader ecosystem. Changes in any of these will in turn influence the type, quantity and effect of **industrial pollution** generated by economic activity and its management.

These phenomena, are, in turn, cross-linked, as illustrated in the Figure 2 below:

Figure 2: Causal Linkages between Sustainability Aspects



3.3. Aspects to be considered for sustainable policy design of MSMEs in India

The objective of the Sustainability Framework for the project is to understand and analyze the DC-MSME Support Schemes with respect to inclusion of sustainability aspects (Economic, Social and Environmental) and approaches. Currently, the DC-MSME support schemes are mostly addressing the barriers to the economic growth; however, with changing times (and with an evolving understanding of sustainability issues amongst all stakeholders), the MSME sector will also need to address social and environmental challenges for sustainable wealth generation.

Sustainable wealth generation implies a sustained and incremental increase in a firm's income and profitability, accompanied by generation of more jobs while at the same time, providing for safe & healthy working conditions, increased resource efficiency and enhanced responsible competitiveness of firms (which includes governance, transparency and accountability aspects as well as social equity). Keeping sustainable wealth generation in mind as an overall aim of the MSME sector; and DC-MSME being the primary actor in policy formulation and implementation w.r.t. MSMEs, the framework to analyse the DC-MSME support schemes should appropriately capture the socio-economic context of India and adequately reflect their social and environmental concerns. As has been discussed in the previous sections, Sustainability has three dimensions: Social, Environmental, and Economic. Each of these three dimensions comprise several sustainability related aspects: 3 in social, 3 in environmental and 7 in economic that are relevant in India's socio-economic-environmental context.

These aspects have been summarised in [Table 5](#) below:

Table 5: Sustainability Aspects across S-E-E dimensions

| Economic | Social | Environmental |
|---|--|---|
| 1. Access to Finance 2. Access to Technology 3. Infrastructure Support 4. Access to BDS 5. Access to Market 6. Innovation & Research 7. Skill Development | 1. Health & Safety of stakeholders 2. Social Inclusion & Equity 3. Governance, Ethics & Transparency | 1. Resource Efficiency 2. Emissions, Effluents & Waste Management 3. Climate Change |

The aspects under the economic dimension have been adapted from the barriers to growth of MSME sector in India (as defined by the Planning Commission), with an addition of an extra element of 'access to BDS'. Under the social dimension, the aspects of 'health & safety of stakeholder', 'social inclusion & equity', and 'governance, ethics & transparency' have been envisaged to address the spectrum of social and ethical issues associated with MSMEs and sustainability. Similarly, under environmental dimension, three aspects; 'resource efficiency', 'emissions, effluents & waste management' and 'climate change' together comprise the environmental challenges that an Indian MSME needs to endure.

All the sustainability aspects under the respective dimensions and the associated objectives of these aspects are given in the [Table 6](#) below.

Table 6: Sustainability Dimensions: Aspects and Intended Objectives

| ASPECTS | Intended Objectives |
|--|--|
| Social Sustainability | |
| Health and Safety of Stakeholders | <ul style="list-style-type: none"> • Promotes improved working conditions • Improves workers' health and safety (including social & medical) through preferential treatment and/or incentives • Encourages adoption of safe manufacturing practices and discourages hazardous manufacturing practices • Encourages adoption of quality certification/s aimed at improving health & safety processes etc • Addresses community health and safety concerns |
| Social Inclusion & Equity | <ul style="list-style-type: none"> • Incentivises vulnerable and marginalised groups for wage/self employment • Focuses attention on under-developed areas • Promotes human rights (including non-discrimination, collective bargaining, prohibition of child/forced labour etc) • Sensitises vendors and builds their capacities on social issues • Encourages adoption of social standard certification (SA 8000) • Encourages women entrepreneurs (facilitates gender equity) |
| Governance, Ethics & Transparency | <ul style="list-style-type: none"> • Encourages MSMEs to adopt practices that facilitate transparency of systems and processes (good governance, reporting, disclosures etc) • Promotes compliance with national laws/regulations • Supports representative associations of MSMEs for collective action and responsible advocacy |
| Environmental Sustainability | |
| Resource efficiency | <ul style="list-style-type: none"> • Promotes optimal use of natural resources and raw materials • Provides financial and technical support for process improvement, with an aim to reduce waste generation and water & energy consumption |
| Emissions, Effluents & Waste Management | <ul style="list-style-type: none"> • Supports management of hazardous material and effluent treatment (hazardous as well as non-hazardous) • Promotes re-use, recycling and proper disposal of waste • Incentivises measures to reduce air emissions, emissions of ozone-depleting substances etc, by promoting adoption of pollution control technologies/processes |
| Climate Change adaptation and mitigation | <ul style="list-style-type: none"> • Enhances awareness amongst MSMEs on challenges posed by climate change • Provides financial and technical support for production and adoption of energy efficient, clean and renewable energy technologies, that help reduce GHG emissions • Funding studies to identify actual and/or potential environmental challenges due to climate change |
| Economic Sustainability | |
| Access to Finance | <ul style="list-style-type: none"> • Enhances the quantum of institutional finance • Reduces the cost of capital • Encourages provision of equity, alternative finance and start-up finance • Reduces barriers to access institutional finance (<i>collateral requirement, financial illiteracy, bankers' awareness, inappropriate financial product/s etc</i>) |

| ASPECTS | Intended Objectives |
|--|---|
| Access to Technology | <ul style="list-style-type: none"> Reduces the cost of technology upgradation Enhances technology absorption capacity of the firm(s) / unit(s) Supports adoption of modern technology through information dissemination, increased awareness, better linkages etc Supports the adoption of Information and Communication Technology |
| Infrastructure Support | <ul style="list-style-type: none"> Provides funding and other support (technology / market access etc) for upgradation of existing industrial infrastructure / creation of new infrastructure Supports groups of firms/clusters, to create common infrastructure e.g. <i>testing facilities, dissemination centre, display-cum-exhibition centre, warehouses, raw material banks etc</i> |
| Access to BDS | <ul style="list-style-type: none"> Reduces the cost of availing Business Development Services (BDS) from service providers and increases the availability of appropriate services/providers Enhances the capacity of industry associations for scheme implementation and facilitates greater outreach Promotes expert agencies for providing the firms with access to technical expertise/BDS |
| Access to Market | <ul style="list-style-type: none"> Supports access to national and international markets Provides funding and other support for organizing and/or participating in exhibitions, fairs, Buyer Seller Meets etc Supports market analysis and intelligence gathering to bridge the “demand:supply” gap Supports product development and diversification (design, quality, packaging, branding, certification) for increasing market presence |
| Promoting innovation & research | <ul style="list-style-type: none"> Provides funding for in-house and/or joint industry Research & Development Supports patent and trademark registration/s, for incubating & protecting potential business ideas |
| Skill Development | <ul style="list-style-type: none"> Supports MSMEs to enhance the skills of their existing workforce Creates ‘new’ skilled & employable workforce through specialized and contextual training programmes Promotes and supports training institutions & intermediaries to build their capacities |

3.4. Application and limitations of the Framework

3.4.1. User guidelines for Scheme Design framework

The framework lists various S-E-E aspects, against which the current and potential MSME schemes can be mapped. Before the mapping, the **user is required to understand the sustainability aspects and intended objectives under each of the aspects listed in the framework** (defined in section 3.3) and **read the scheme documents thoroughly**. For the purpose of analysis, all the relevant DC MSME schemes have been reviewed to assess coverage of the sustainability aspects across the various scheme components.

The following steps are being suggested to serve as a ‘user guide’ for applying the Sustainability Design Framework on current / future DC MSME schemes:

Step 1: Mapping schemes against Sustainability Aspects

For the mapping, the user needs to search for references that may indicate existence of a particular aspect(s) in the scheme document. The user should highlight relevant sections in the scheme document.

Step 2: Identifying ‘intended objectives’ in the scheme coverage

In the next step, the user needs to analyse the identified aspects of step # 1 for existence of ‘intended objectives’. These intended objective may appear clearly as a statement of ‘objectives’ or may be implied upon in the implementation mechanism / incentives section/s. Accordingly, all the ‘intended objectives’ need to be then either marked as present or absent for a particular scheme. This step is a pre-cursor to obtain the Sustainability Scores, calculation for which is explained in the next step.

Step 3: Calculating “Sustainability” scores (S-scores)

After factoring in for the presence or absence from the list of ‘intended objectives’ (refer Table 6), the final sustainability score is computed after taking mean average.

The Sustainability Score (S-Score) has been calculated as follows:

$$\text{Sustainability Score} = \frac{\text{Number of ‘intended objectives’ (S-E-E) covered in the scheme}}{\text{Total number of ‘intended objectives’ (S-E-E) mentioned}}$$

The design of Government policies for the MSME sector in India has been to boost economic development while achieving regional and social equity in the country. However, these are, by far, the indirect outcomes. The focus of planning primarily has been on improving the economic status (and incomes) of enterprises, with all the schemes having ‘economic benefit’ as a clearly stated and articulated objective.

Accordingly, in order to have a much grounded comparison of such economically-oriented schemes, all the DC-MSME scheme have been awarded a constant score of 1.0 on the economic dimension, so that the focus of analysis is shifted to the other lesser priority dimensions of sustainability i.e. social & environmental. The S-Scores have thus been tabulated for the social & environmental dimensions only.

It should be noted that in most of the schemes where there is a coverage of sustainability aspects, there usually is a corresponding provision for an incentive in the scheme. However, there are a few exceptional schemes where sustainability aspects are acknowledged without any incentives. For example, although the CDP scheme explicitly mentions that the location selected for infrastructure development should not create any ecological imbalance by disturbing environment, it doesn’t provide an incentive for the same. Similarly, schemes like Technology Upgradation and CLCSS express their intent towards gender equity by inclusion of a category on women in the application forms and by acknowledging the need to prioritise women respectively, however neither of these schemes provide for additional incentives to ensure affirmative action on this aspect.

For the purpose of the analysis, all the relevant DC-MSME schemes have been analysed to assess coverage of the sustainability aspects across the social & environmental dimensions. *To understand the scheme’s portfolio better, S-Scores can further be analysed by aggregating & classifying the scores and assigning relative ratings to them,*

such as congruent / consistent / requiring improvement, among others. It is to be noted that the rating is not a yardstick for sustainability performance, because given the scope and definition of some schemes, there is limited room for improvement on the environmental and social dimensions, in a few instances. However, the rating could be considered as a reasonable representation of coverage of sustainability aspects in a scheme and also for the subsequent incentives.

3.4.2. Limitation of the design framework

The scope of the design framework is mainly to understand coverage of schemes as per the aspects identified within the three dimensions of sustainability. Following are the key limitations of the design framework.

- The framework is an “as-is” assessment of DC MSME schemes and doesn’t factor in the potential Sustainability Score after inclusion and incentivisation of currently excluded aspects that may be relevant for that scheme. In order to arrive at a potential sustainability score for the schemes, the framework should be supplemented with the list of scheme-specific recommendations provided in Section 3.5.1 of the Report.
- Schemes with fewer components are automatically awarded a lower Sustainability Score on the design framework. The score doesn’t capture the irrelevance of a particular aspect to a scheme; it only assesses the presence or absence of sustainability aspects in the scheme design.
- The coverage of sustainability aspects is defined purely by the acknowledgment of a particular aspect in the scheme document. *The framework is silent on the ‘degree’ of coverage and incentives of sustainability impacts in the schemes.*
- As per the framework, social and environmental aspects have been provided with an equal weightage for assessing sustainability scores. Ideally the weightages could vary based on the scope of the scheme and relative significance of the aspect/ intended objectives with respect to the particular scheme.
- The description for aspects and their corresponding ‘intended objectives’ in the framework are meant to be indicative of various sustainability concepts, but are not meant to exclude alternative descriptions.
- As mentioned before, the S-score doesn’t factor in the irrelevance of a particular aspect with respect to a scheme. In conclusion, a low social S-score does not necessarily translate into poor social performance in an overall sense. To be able assess the actual performance of the scheme; a detailed study needs to be undertaken to determine relevance of different sustainability aspects to the scheme.

3.5. Application of the framework to existing schemes

3.5.1. As-is Assessment of the schemes on the framework

The DC MSME scheme are analysed in the above framework and sustainability score for these schemes are summarised in the Table 7. As specified in Section 3.4.1, the **Economic Score has been kept constant** with a value of 1.00 in the present array of MSME schemes. In the last column in the table, the scope of improving further on

environment and social aspects are also provided. Moreover, detailed analyses for intended objective with scheme wise description are provided in the subsequent sections.

It is observed that five schemes score more than or equal to 0.50 on social sustainability. These schemes are QMS/QTT, MATU, Reimbursement of ISO certification, CDP, and National Awards scheme. The highest score obtained in social sustainability is 0.57, scored by MATU and National Awards scheme. On the other side, three schemes score 0.00 in social sustainability. These schemes are Design clinic, Incubator scheme and Financial Assistance to Mini Tool Rooms. Under environmental sustainability, only three schemes score more than or equal to 0.50 and these schemes are QMS/QTT, CLCSS, and CDP with scores of 0.63, 0.63 and 0.50 respectively. However, a large number of scheme score 0.00 on environmental sustainability.

The Figure 3 presents S-Scores of schemes classified as per the barriers for growth of MSME sector, as identified by the Planning Commission. The graph suggests that schemes with higher S-Scores in 'Social' and 'Environmental' dimensions usually fall under the buckets of 'access to technology' and 'infrastructure'. Most of the schemes under 'access to market & procurement' and 'access to finance' have low scores on 'Social' and 'Environmental' dimensions.

A closer look at the graph suggests that :

- only the ICT scheme under 'access to technology' scores 0 on environmental sustainability. Overall, these set of schemes together present a better portfolio compared to the other three sets.
- Looking at 'infrastructure', two schemes - Incubator and Tool Room score 0 on both the dimensions of sustainability.
- Under 'access to market & procurement', all the schemes except MATU have a 0 score on environmental sustainability while the Design Clinic scores 0 on both the dimensions.
- Both the schemes under 'access to finance' score 0 on environmental sustainability

Figure 3: Sustainability Scores of DC MSME Support Schemes

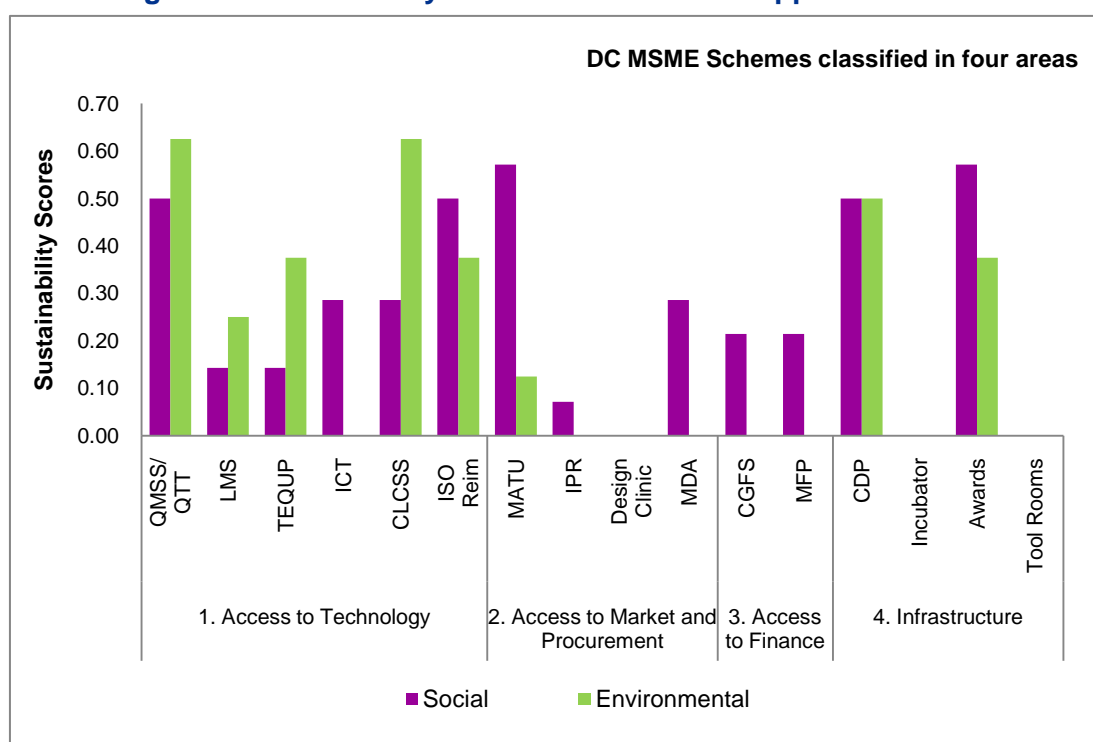


Table 7: Sustainability scores (S-Scores) for DC MSME schemes

| | Schemes | Sustainability Score | | | Scope of improvement on Environmental and Social dimension/s |
|-----|--|----------------------|------|------|---|
| | | S | En | Ec | |
| 1 | NMCP Schemes | | | | |
| 1.1 | Marketing Assistance and Technology Upgradation in MSMEs & Financial assistance Bar code | 0.57 | 0.13 | 1.00 | Env aspects: Explicit mention of environment friendly packaging technologies in scheme Social aspects: Limited scope of improvement |
| 1.2 | Entrepreneurial and managerial development of SMEs through incubators | 0.00 | 0.00 | 1.00 | Env aspects: Sensitising new entrepreneurs on sustainable business practices Social aspects: Provision of additional incentives for socially disadvantaged groups and women to set up enterprises |
| 1.3 | Enabling manufacturing sector be competitive through QM Standards and Quality Technology Tools | 0.50 | 0.63 | 1.00 | Env aspects: Increased focus on products that involve environmentally harmful processes, which pose significant health and safety hazards, and not only on products threatened by imports Social aspects: Inclusion of SA8000 in list of QMS/QTTs to further fair human right practices in SMEs |
| 1.4 | Scheme for "building awareness on IPR" for MSMEs | 0.07 | 0.00 | 1.00 | Env aspects: Limited scope of improvement Social aspects: Provision of additional incentives for socially disadvantaged groups and women |
| 1.5 | Lean manufacturing competitiveness scheme (LMCS) for MSMEs | 0.14 | 0.25 | 1.00 | Env aspects: Expansion of scheme objectives to include "improved worker health and safety" and "improved environmental impact through optimal resource consumption" Social aspects: Provision of additional incentives for socially disadvantaged groups and women |
| 1.6 | Setting up mini tool room & training centres under PPP mode | - | - | - | Not covered |
| 1.7 | Design clinics scheme for design expertise to MSMEs (manufacturing) | 0.00 | 0.00 | 1.00 | Env aspects: <ul style="list-style-type: none"> Addition of criterion on 'environmental impact / compatibility' while evaluating the design concepts Training of design consultants on sustainable product design Social aspect: <ul style="list-style-type: none"> Assessment of design against social parameters such as community health and safety Provision of additional incentives for encouraging socially disadvantaged groups and women |
| 1.8 | Scheme Technology and Quality Upgradation support to MSMEs (TEQUP) | 0.14 | 0.38 | 1.00 | Env aspects: <ul style="list-style-type: none"> Extension of scope to include other environment friendly technologies (related to waste reduction, water conservation, material efficiency etc). Provision of financial assistance to MSME projects aimed at improving the energy performance of their buildings Social aspects: Provision of additional incentives for socially disadvantaged groups and women |

| | Schemes | Sustainability Score | | | Scope of improvement on Environmental and Social dimension/s |
|-----|---|----------------------|------|------|---|
| | | S | En | Ec | |
| 1.9 | Promotion of ICT in the MSME sector | 0.29 | 0.00 | 1.00 | <p>Env aspect: Provision of Incentives for procurement of green hardware & software (i.e. energy efficient, easy to recycle etc)</p> <p>Social aspects: Limited scope of improvement</p> |
| | <u>Other Schemes</u> | | | | |
| 2 | Micro & small enterprises - Cluster Development programme (MSME-CDP) | 0.50 | 0.50 | 1.00 | <p>Env aspects:</p> <ul style="list-style-type: none"> Financial support for 'development of' & 'awareness towards' eco-friendly infrastructure and green buildings Provision of incentives for joint environment and social projects undertaken in the clusters Inclusion of environmental aspects in project appraisal stages for infrastructure development component <p>Social aspects:</p> <ul style="list-style-type: none"> Inclusion of social aspects in project appraisal (e.g. impact of/on local communities) |
| 3 | Credit link Capital Subsidy Scheme for technology up gradation (CLCSS) | 0.29 | 0.63 | 1.00 | <p>Env aspects: Provision of additional incentives for energy efficient and eco-friendly technologies</p> <p>Social aspects: Provision of incentives for women, SC/ST etc.</p> |
| 4 | Credit Guarantee Fund Scheme for MSEs | 0.21 | 0.00 | 1.00 | <p>Env + social aspects:</p> <p>Waiving off annual service fee and guarantee fee for MSMEs that use technologies and/or manufacture products that have a positive environmental footprint</p> |
| 5 | Quality upgradation / environment management for small scale sector through incentive for ISO 9000 / ISO 14001 / HACCP certifications | 0.50 | 0.38 | 1.00 | <p>Env aspects: Requirement of in- plant verification to ensure implementation of environment management standards under ISO 14001</p> <p>Social aspects: Provision of additional incentives for socially disadvantaged groups and women</p> |
| 6 | Market Development Assistance scheme for micro/ small manufacturing enterprises/ small & micro exporters | 0.29 | 0.00 | 1.00 | <p>Env aspects:</p> <ul style="list-style-type: none"> Addition of trade fairs that promote eco friendly products and technologies Provision of additional incentives for MSEs that promote environment friendly technologies or produce eco friendly products <p>Social aspects: Limited scope of improvement</p> |
| 7 | Financial assistance to states/state agencies for setting up mini tool room and training centres | 0.00 | 0.00 | 1.00 | <p>Env + social aspects:</p> <ul style="list-style-type: none"> Incentives and support for industries that have positive environmental or social impacts |
| 8 | Scheme of micro finance programme | 0.21 | 0.00 | 1.00 | <p>Env aspects: Limited scope of improvement</p> <p>Social aspects:</p> <ul style="list-style-type: none"> Inclusion of poorer regions and not only the 'better banked' areas Broadening scope of scheme to include on-lending in off-farm and allied sectors |
| 9 | National award scheme/ guidelines | 0.57 | 0.38 | 1.00 | <p>Env + social aspects:</p> <ul style="list-style-type: none"> Additional awards for MSMEs with an outstanding record in terms of environmental and social performance |

| | Schemes | Sustainability Score | | | Scope of improvement on Environmental and Social dimension/s |
|--|---------|----------------------|----|----|---|
| | | S | En | Ec | |
| | | | | | Social aspects: <ul style="list-style-type: none"> Addition of a component of social responsibility in the list of criteria |

Source: KPMG analysis

As evident from above, the suggestions to improve the sustainability performance vary as per the context of each scheme. On the social front, one of the most feasible options is to either incentivise the participation of women & backward groups in the scheme (inclusion criteria) or to include the local, resident communities as an appraisal / impact criteria. On the other hand, it has been suggested that incentivisation of sustainable & environmentally responsible practices/processes/technologies can substantially help enhance the environmental performance of the DC-MSME schemes.

However, some of the schemes shall continue to lack elements of sustainability, such as the “*Building awareness on IPR*” and the “*Scheme for Microfinance*” will continue to have a low emphasis on the environmental dimension given the purpose & definition of the schemes.

When seen through the S-E-E lens, of a total of 14 social objectives, 8 environmental objectives and 22 economic objectives; there are 6 social objectives (~42%), 3 environmental (~37%) & 2 economic objectives (~9%) respectively, which are relatively unaddressed by any scheme. The above cited pattern supports the inferences that the DC-MSME schemes are skewed towards the economic dimension. Given the relative absence of these objectives, there is sufficient scope to extend the design of the schemes to factor in these missing elements. Details on probable options for increasing sustainability orientation of the DC-MSME schemes has been presented in the scheme-specific sub-sections ahead.

Table 8: Occurrence of Sustainability Objectives in the DC-MSME scheme portfolio

| Sustainability Objectives (14 S - 8 E - 22 E) | Status (occurrence) |
|---|--|
| <u>SOCIAL DIMENSION</u> <ul style="list-style-type: none"> Improves workers' health & safety (medical/social) through preferential treatment and/or incentives Addresses community health and safety concerns Promotes compliance with national laws / regulations <u>ENVIRONMENTAL DIMENSION</u> <ul style="list-style-type: none"> Enhances awareness amongst MSMEs on challenges posed by climate change Provides financial and technical support for production and adoption of energy efficient, renewable energy technologies, that help reduce GHG emissions <u>ECONOMIC DIMENSION</u> <ul style="list-style-type: none"> Supports patent and trademark registration/s, for incubating & protecting potential business ideas Creates 'new' skilled & employable workforce through specialized and contextual training programmes | <p>Minimal (present / stated in 1-2 schemes)</p> |

| Sustainability Objectives (14 S - 8 E - 22 E) | Status (occurrence) |
|--|---------------------|
| <u>SOCIAL DIMENSION</u> <ul style="list-style-type: none"> Promotes human rights (including non-discrimination, collective bargaining, prohibition of child/forced labour etc) Sensitises vendors and builds their capacities on social issues Encourages adoption of social standard certification (SA 8000) | Absent |
| <u>ENVIRONMENTAL DIMENSION</u> <ul style="list-style-type: none"> Funding studies to identify actual and/or potential environmental challenges due to climate change | |

As inferred from the S-Scores on the social dimension in [Table 7](#), 10 out of 16 schemes are consistent while the remaining 6 schemes require improvement. The environmental dimension has a comparatively worrying performance as it has a converse scenario, with a large proportion of the schemes (9 out of 16) requiring improvement, while a lesser proportion is actually consistent. **The above tables (7 and 8) thus summarily indicate that a fair proportion of the schemes have elements of Sustainability already integrated into its design, though the numbers are lesser than desirable.** The comparative analysis also indicates that the larger & comprehensive schemes (such as CDP etc) are better and more holistic in their coverage of the S & E dimensions.

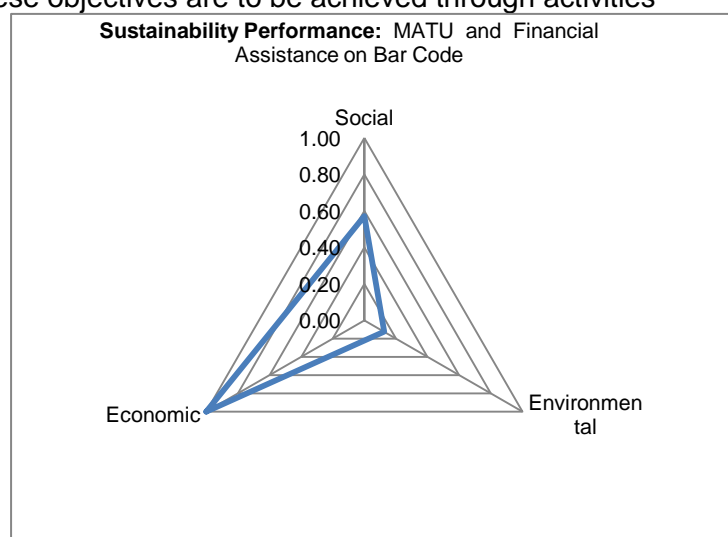
1. [National Manufacturing Competitiveness Programme \(NMCP\)](#)

1.1 [Schemes for Marketing Assistance and Technology Upgradation \(MATU\) in MSMEs and Financial Assistance on Bar Code](#)

Scheme objectives and inputs

The main objective of the scheme is to enhance the competitiveness of the MSMEs in national and international markets. These objectives are to be achieved through activities that include technology upgradation in packaging, skill development courses, setting up of market hubs, reimbursement of various certifications, support for exploring new markets by attending state/ district level exhibition/ trade fairs etc.

All MSMEs with Entrepreneurial Memorandum (EM) Part-II registration are eligible to apply for the scheme. Furthermore, there is a list of target clusters indicated by the Screening-cum-Steering Committee (SSC) for this scheme.



Scheme analysis on Sustainability Aspects

The scheme design addresses various economic objectives such as access to technology, access to markets and business development services, and skill development among MSMEs.

On the social front, the scheme provides additional support to women, SC/STs, physically handicapped and to economically backward regions in North East, thereby contributing to social equity. The scheme also has a reimbursement programme for ISO 18000 / 22000 / 27000 that addresses the health and safety objectives within social aspects of sustainability. The scheme's score of 0.57 on the social dimension makes it moderately consistent with social aspects. Given the nature of the scheme, there is limited scope to improve this score further.

The scheme does not address environmental aspects explicitly. By supporting new packaging technologies, the scheme contributes to resource efficiency. However, as it does not meet majority of the environmental objectives, it scores 0.13 on this dimension and can be improved further.

Recommendations to improve 'scheme sustainability'

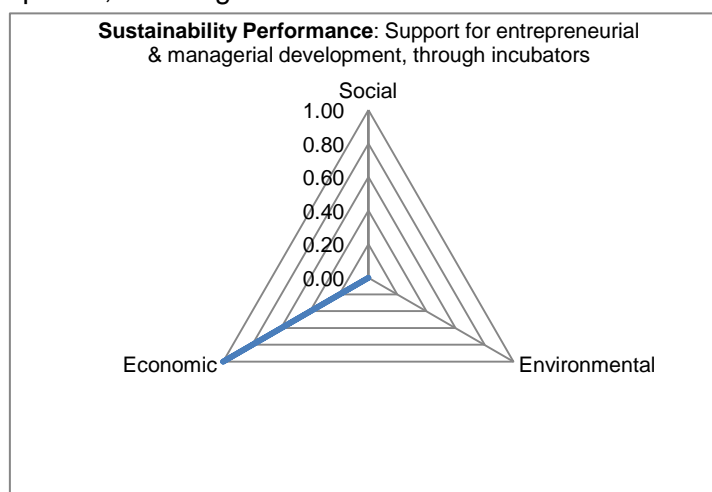
- *The scope of the scheme can be extended to promote eco-friendly packaging technologies by including appropriate incentive(s) in the scheme design for usage of such technologies.*
- The scheme can also *incentivise the adoption of eco labels* (such as Rugmark, Ecomark, FSC, FTLO and other internationally accepted eco-labels) that will help MSMEs sell their products in international markets where consumers are more conscious of the environmental footprint of products they consume, and the social conditions in which they are produced.

1.2 Support for Entrepreneurial and Managerial Development of MSMEs through Incubators

Scheme objectives and inputs

The main objective of the scheme is to assist incubation of innovative business ideas that could be commercialised in a short time period, resulting in the formation of MSMEs that have a distinctive presence in the market. These objectives are to be achieved through activities such as setting up of business incubators (BIs) under technology institutions.

Students and ex-students of science and technology and others who have innovative ideas at the laboratory or workshop stage and beyond, can avail this scheme. A list of indicative areas for innovation and host institutions are also provided in the scheme.



Scheme analysis on Sustainability Aspects

The scheme addresses various economic aspects such as skill development of entrepreneurs, access to technology and access to infrastructure to develop entrepreneurial ideas. Resilience, innovation and adaptability are also direct outcomes of this scheme.

In contrast, the scheme does not directly or indirectly address social or environmental aspects of sustainability in its current form. However, there is a significant scope of improvement on both of these dimensions.

Recommendations to improve 'scheme sustainability'

- *This scheme could be modified to sensitise entrepreneurs on aspects of environmental and social sustainability that would lead to more responsible business behaviour.*
- *The sustainability score of this scheme could be improved by designing additional incentives for innovative ideas that further environmental & social sustainability.*
- *The score on social aspects for this scheme can be improved by providing additional incentives for SC/STs, women entrepreneurs and other socially disadvantaged groups.*

1.3 Enabling Manufacturing Sector to be competitive through Quality Management Standards and Quality Technology Tools (QMS/QTT)

Scheme objective and inputs

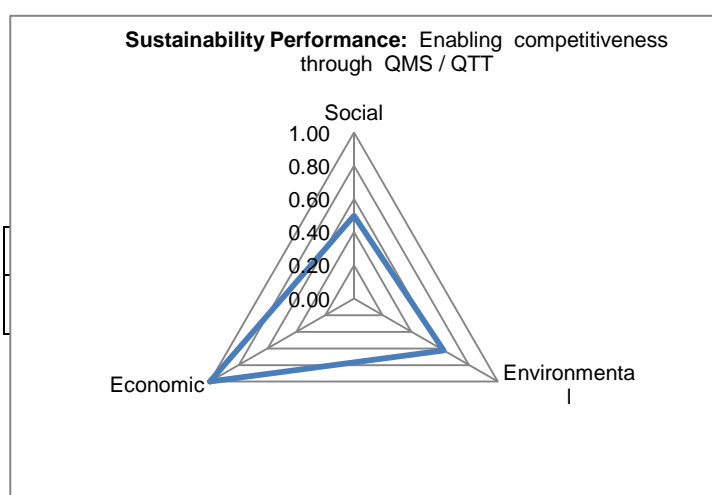
The main objective of the scheme is to sensitise and encourage the MSMEs to adopt latest QMS/QTTs and keep a watch on sectoral developments. These objectives are to be achieved by undertaking activities such as introducing appropriate course modules for technical institutions, organising awareness campaigns for MSEs, implementing QMS / QTT in selected MSEs, monitoring international study missions etc.

MSEs and expert organisations like QCI, NRBPT, CDC, NPC, industry associations, technical institutions, engineering colleges, tool rooms etc. are eligible to apply for this scheme.

Scheme analysis on Sustainability Aspects

The scheme addresses several economic aspects by incentivising implementation of QMS/QTTs that help reduce manufacturing cost and improve product quality, thereby contributing to firm's overall profitability. The scheme also increases access to international markets and facilitates technological improvements.

Although the scheme covers worker health and safety as part of ISO 9001 / 18001 / 22000, it does not adequately cover tools that help mitigate human rights violations and improve social accountability of MSMEs. The scheme is also silent on social equity and governance objectives. Overall, the scheme is moderately consistent with social aspects with a score of 0.50.



On the environmental side, the scheme incentivises adoption of ISO 14001, an International Standard for development of an Environmental Management System (EMS). Indirect benefits of using ISO 14001 include reduced cost of waste management, savings in consumption of energy and materials, lower distribution costs and improved corporate image. Adoption of such a standard will not only improve the environmental impact of MSEs, but also help them reduce their manufacturing and compliance cost, and facilitates access to international markets that command high environmental standards. By encouraging MSMEs to track their environmental performance through adoption of ISO 14001, the scheme is consistent with environmental aspects with a score of 0.63.

Recommendations to improve 'scheme sustainability'

- The scheme is primarily targeted at 'threatened products' i.e. product categories that face significant competition from imports; whereas QMS and QTTs are more relevant to product categories that involve environmentally harmful processes, which pose significant health and safety hazards. Therefore, *scope of the scheme can be increased by expanding the eligible product categories that can be considered for the scheme.*
- *A tool like SA8000 could be explored for integrating into this scheme, to make it more inclusive.* SA8000 measures the performance of organisations across eight areas such as child labour, forced and compulsory labour, health and safety, freedom of association and collective bargaining, discrimination, disciplinary practices, working hours and remuneration that are particularly critical in the Indian context.
- *The scheme's overlap with Lean manufacturing competitiveness scheme (LMCS) under NMCP and ISO reimbursement scheme should be reviewed to avoid duplication of funding.* Currently standards such as ISO 9001 and ISO 14001 are covered under both QSS/QTT scheme and the ISO reimbursement scheme. Similarly there is an overlap in some of the QMS/QTTs and LMTs such as Kaizen, 5S and TPM.
- *The list of resource organisations should be updated* to include institutions working closely with MSEs such as NIMSME, NIESBUD and MSME-DIs. These institutions have significant experience in implementing QMSs/QTTs in MSEs but are currently excluded from the list of organisations that can benefit from the scheme.
- *Section 1.4 of the 'scheme document' that lists the scheme benefits, can be further elaborated* to include benefits such as improvement in the environmental impact of MSEs' operations, improvement in the occupational health and safety conditions in MSEs and more robust information security management systems at MSEs
- The score on social aspects for this scheme can be improved by *providing additional incentives for SC/STs, women entrepreneurs and other socially disadvantaged groups.*

1.4 Building awareness on Intellectual Property Rights (IPR)

Scheme objective and inputs

The objective of the scheme is to enhance awareness of MSMEs about IPRs to take measures for protecting their ideas and business strategies. To achieve the stated objectives, the scheme provides assistance for various activities such as awareness/sensitisation programme/ seminar/ workshops, pilot studies for selected clusters/group of industries, financial assistance on grant of patent / GI registration, setting up IP facilitation centres etc.

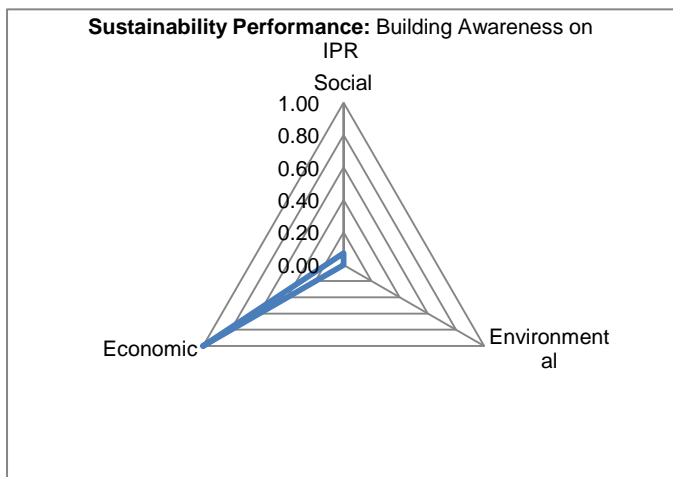
MSMEs with EM credentials, industry associations, NGOs and expert agencies are eligible to apply for the scheme.

Scheme analysis on Sustainability Aspects

The scheme addresses several economic parameters as it enables MSMEs to compete in the global market, and helps protect and encourage innovation among Indian MSMEs.

The scheme is uniquely designed to address social issues of MSME's intellectual rights, enforcement of rights by providing awareness on IPR and related aspects. However, the scheme is silent on social equity objectives. Therefore, the scheme's low social sustainability score at 0.07 requires further improvement.

The scheme design does not address any of the environmental aspects and objectives. However, there is ample scope to include more environmental objectives around energy efficiency, sustainable water management, waste reduction etc. in the scheme.



Recommendations to improve 'scheme sustainability'

- Social equity aspect can be addressed by *providing additional incentives for women, SCs/ STs and socially disadvantaged groups.*
- The scheme design can be improved by *expanding the limits for grant funding.* One of the suggested changes is to *increase the grant given for domestic patents to Rs. 75,000 and for international patents to Rs. 3 Lakhs.* Stakeholders also suggested that a grant to the tune of Rs. 25,000 should be provided for those patent applications whose abstract is published by patent office for select sectors such as biotechnology, auto components, electronics, domestic appliances etc. A similar grant should also be given to MSEs for design registrations.
- Since IPR completion is a time consuming process (taking upto 5 years), the *timing of grant disbursement should also be modified to provide some incentive at the time of filing of patents or at the 'in-principle approval' stage.*

1.5 Lean Manufacturing Competitiveness Scheme (LMCS)

Scheme objectives and inputs

The main objective of the LMCS is to assist MSMEs to reduce their manufacturing cost through reduced waste and variability, optimal process flows and reduced engineering time. These objectives will be achieved by provision of subsidised consultation on Lean Manufacturing Techniques (LMTs) such as JIT, 5S, Visual Control, TPM, etc, and by creating awareness through training programmes on implementation of LMTs.

The LMCS is open to all MSMEs. The units are required to form a MC (mini cluster) of 8-10 units, by signing a Memorandum of Understanding (MoU) among them to participate in the scheme. The MCs are required to formalise their association by forming a Special Purpose Vehicle (SPV).

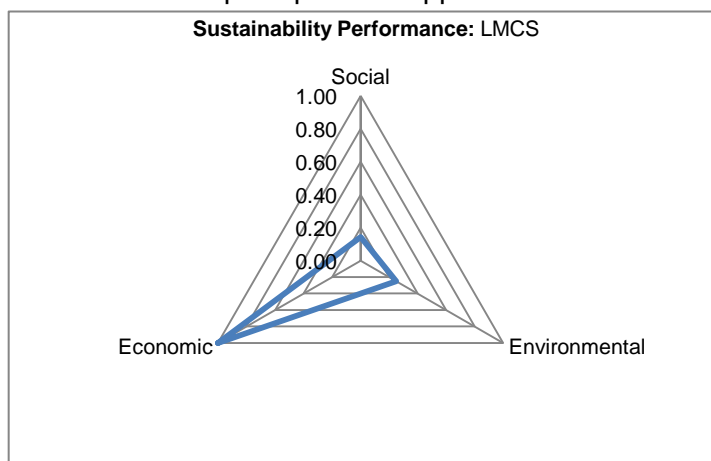
Scheme analysis on Sustainability Aspects

On the economic front, the scheme is fairly robust as it aids in reducing manufacturing cost through process efficiencies. Although the scheme makes a unit more resilient to external changes, it doesn't foster innovation as suggested in one of its objectives. Past studies⁴ have revealed that more the successful lean principles are applied in an organisation, the more focused the organisation tends to be on incremental production changes.

The scheme indirectly covers the social aspect of worker health and safety through LMTs such as visual control and SOPs.

However, *defining "improved health and safety" as an objective would help align other relevant techniques to this goal as well.*

The scheme is relatively silent on social objectives of gender and income equity, and does not promote sound governance. This gives the scheme a below par score of 0.14 on social aspects.



On the environmental front, the scheme briefly touches upon 'reduction in waste' as a scheme objective. However, various other environmental aspects such as reduction of emissions, effluents and waste are not directly addressed by the scheme components. *The scheme has potential to incentivise such indirect environmental benefits arising out of implementation of LMTs.* By implicitly improving environmental performance of MSMEs, the scheme is slightly consistent (0.25) with the environmental dimension.

Recommendations to improve 'scheme sustainability'

- The scheme objectives can be expanded to include *"improved worker health and safety" and "improved environmental impact through optimal consumption of natural resources"* to explicitly acknowledge the environmental and social benefits accruing from LMCS.
- The scheme can provide additional incentives for women, SCs/STs, clusters with 50% or more micro units, women, and SC/STs and other socially disadvantaged groups.
- Stakeholders have cited lack of role clarity in the scheme document as an impediment to scheme implementation. *The monitoring mechanism in the scheme needs strengthening by including frequency and scope of monitoring and by clear assignment of roles & responsibilities among implementing agencies and lean manufacturing consultants.*
- The lower limit for the total no. of units eligible to form an SPV under the scheme could be considered for reduction to a more manageable number. Stakeholders commented that the present process to coordinate and arrive at a consensus among 8 MSMEs (to form a Mini Cluster / MC) is practically difficult and time consuming.
- In our interactions, it was suggested by some MSMEs that the quality of LMCs assigned to them, was not as expected. This suggests that *the evaluation criteria for empanelment of LMCs need to be strengthened and if feasible, indicative criteria could be detailed in the scheme for the reference of unit owners and industry associations.*

⁴ Exploring the Impact of Lean Management on Innovation Capability by Hongyi Chen, Ryan Taylor; Department of Mechanical & Industrial Engineering, University of Minnesota, Duluth, MN - USA

- Stakeholder interactions also indicated that LMCs often failed to compute / communicate the cost savings and productivity changes from application of LMTs on the MSMEs business processes. Taking cognizance of this problem, *the scheme could give an indicative description of the critical LM milestones and criteria against which NMIU assesses performance of LMCs and disburses funds to the SPV.* The frequency of reporting by LMCs to SPVs could also be specified in the scheme.
- Innovation vouchers could be introduced as part of the scheme, wherein the vouchers could be redeemed against subsidised consultation services to entrepreneurs on process innovation aspects. This will help address the objective of “introduction of innovative practices” in the scheme and help scale up its outreach.

1.6 Design Clinic Scheme

Scheme objectives and inputs

The main objective of the scheme is to enhance the competitiveness of MSMEs by facilitating product design innovation for improvement of product quality. The objective will be achieved by creating awareness through seminars, workshops; conducting design need assessment surveys & providing funding assistance for engaging Design Consultants.

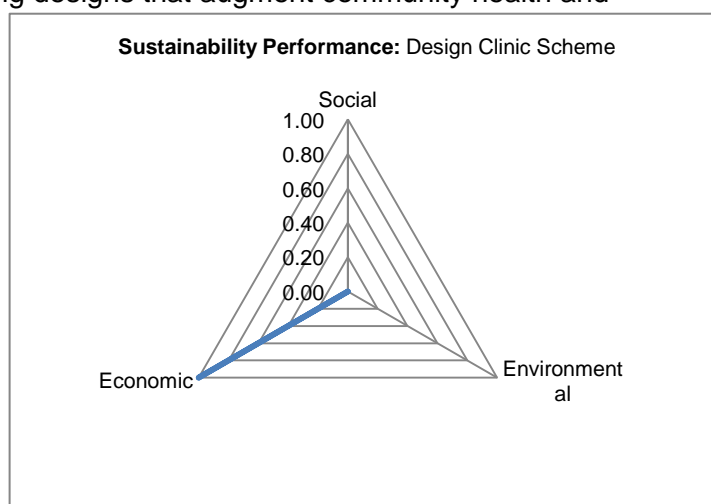
Various organisations that can apply for funding against activities under the scheme include Expert agencies, MSMEs with EM no. and final year students along with units, via empanelment with NID.

Scheme analysis on Sustainability Aspects

By facilitating product innovation, improving access to markets and upgrading design related skills, *the scheme clearly has a positive economic impact.*

However, the scheme fares poorly on social indicators. It doesn't promote social equity and it has no provision for incentivising designs that augment community health and safety. The scheme does not perform well on environmental aspects either. It is essential that product designs be evaluated keeping environmental compatibility and impact in mind.

Due to inadequate coverage of social and environmental aspects in its design, the scheme scores 0 on both the dimensions, and can be significantly improved on both of these parameters.



Recommendations to improve 'scheme sustainability'

- *An additional criterion on 'environmental impact/ compatibility' should also be considered while evaluating the design concepts.* These could include indicators such as potential of product design to reduce air and water pollution, facilitate material and waste optimisation, and assist in water conservation. This is a critical factor in

ensuring that sustainability parameters are considered during the concept phase of product design.

- Furthermore, design consultants should also be trained on sustainable product design so they can educate MSMEs accordingly.
- Similarly the design should also be evaluated against social parameters such as community impact with respect to health and safety.
- Additional incentives could be provided for women entrepreneurs, SC/STs and other socially disadvantaged groups, so as to encourage social equity.
- There should be more technical institutions listed in the scheme document, based on functional expertise on engineering design and depending on sector specific requirements. The Nodal Agency could be made specific to the broader sectoral alignments, rather than the present mechanism of being sector agnostic.
- The delivery mechanism could be improved by increasing accountability for the facilitating agency (NID) and incentivising it to increase its MSME engagement efforts.

1.7 Technology and Quality Upgradation Support For MSMEs (TEQUP)

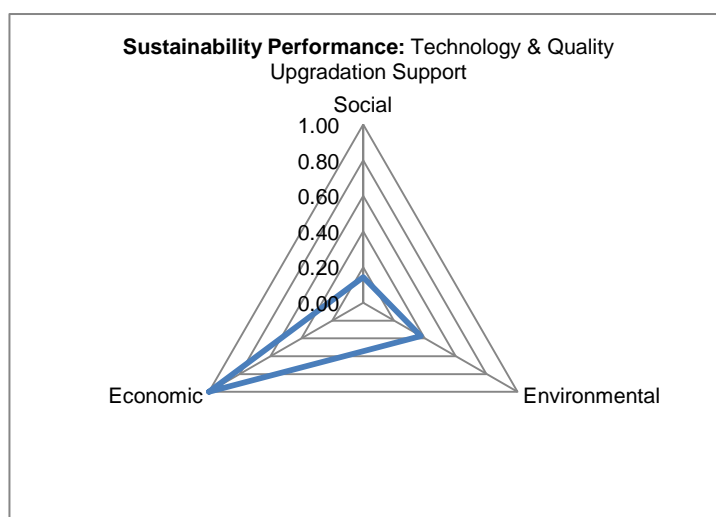
Scheme objectives and inputs

The main objective of the scheme is to sensitise the MSMEs to upgrade their manufacturing processes towards usage of energy efficient technologies (EETs), so as to reduce cost of production and emission of Green House Gases (GHGs). The activities that will help in achieving the stated objectives include capacity building of MSME clusters in EETs, assistance in implementation of EET projects, setting up of Carbon Credit Aggregation Centres (CCAs) in clusters, assistance in product certification etc.

The scheme is available to MSEs with Entrepreneurial Memorandum (EM) number, cluster-based associations, Technical Institutions and Energy Service Companies (ESCOs) and resource organisations such as BEE, TERI, IITs, NITs etc.

Scheme analysis on Sustainability Aspects

The scheme is fairly robust in terms of the economic benefits it facilitates, such as reduced energy cost, and improved quality and marketability of products through product certifications.



On the social front, although the scheme mentions women and SCs/STs in its application forms for assistance on EETs and

| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.14 | 0.38 |

reimbursement of product certifications, *it doesn't specifically incentivise women, SC/STs and other disadvantaged groups*. Further, the scheme doesn't capture the impact of EET projects on worker and community health and safety. The scheme can also be strengthened to improve governance and transparency in the implementation process. At present, the scheme scores poorly (0.14) on social aspects and can be significantly improved.

By encouraging adoption of energy efficient technologies and through creation of CCAs the scheme helps improve energy efficiency which in turn leads to reduction in GHG and air emissions. However, the scheme doesn't promote technologies that could help conserve water and material sources, improve waste management and disposal, and mitigate other environmental risks. Because of exclusion of objectives other than energy efficiency, the scheme scores 0.38 on the environmental dimension. Broadening the scope of environmental friendly technologies will improve the overall sustainability impact of the scheme.

Recommendations to improve 'scheme sustainability'

- *The scheme language should allow for flexibility in the numbers of CCAs to be created, contingent on market conditions, to ensure efficient allocation of funds.* Considering the present market scenario of the global carbon trading system, the no. of proposed CCAs should be reduced and the left over funds should be diverted to more demand driven activities such as implementation of EETs and acquisition of product certifications.
- *The scope of the scheme can be extended to include other environment friendly technologies* (related to waste reduction, water conservation, material efficiency etc).
- *The scheme can also provide financial assistance to MSME projects aimed at improving the energy performance* of their buildings, rather than focusing on production processes alone.
- The energy efficiency audits currently target a group of 3 units in a cluster. To increase uptake of this activity, the energy audits could also be intended at single units to avoid coordination hassles that keep units from availing this component of the scheme collectively.
- *The scheme should detail the incentives available for women, SC/STs and other disadvantaged groups.*
- The incremental benefits asked for in the application form for 'assistance in implementation of EET projects', could also include information on qualitative benefits of the proposed technology/project, with respect to social aspects such as potential improvements in health and safety of workers and local communities, promotion of social equity etc.

1.8 Scheme for promotion of Information and Communication Technology (ICT) In MSME Sector

Scheme objectives and inputs

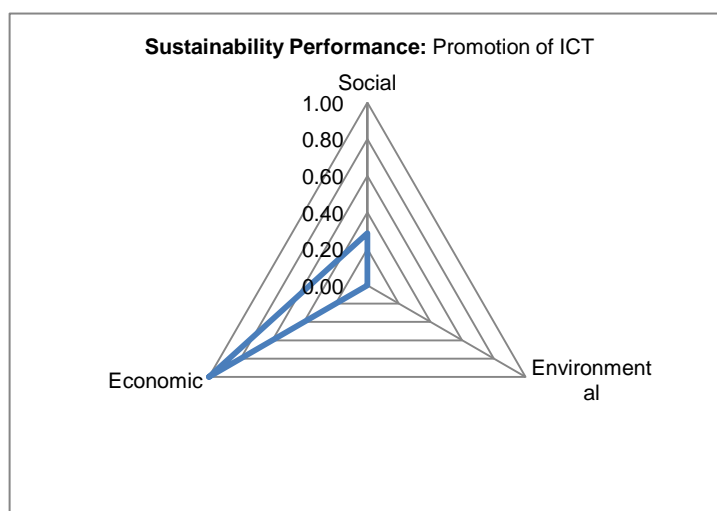
The main objective of this scheme is to carry out diagnostic mapping of potential clusters and motivate them to adopt ICT tools and applications for their production and business processes, with a view to improve their competitiveness in the national and international

market. The activities that will help in achieving these objectives include awareness programmes on ICT tools, setting up of e-Readiness Centres (e-RCs), subsidy on procurement of hardware and software, establishment of national portal for MSMEs etc.

This scheme is aimed at clusters and SPVs of MSMEs across the country and from different industry sectors. The focus of this scheme is on those MSEs and association that have quality production and export potential.

Scheme analysis on Sustainability Aspects

In terms of the economic parameters, the scheme directly addresses skill development through awareness programmes and training provided to clusters, and technological assistance through access to technology providers and IT organisations. This scheme also leads to development of physical infrastructure through the setting up of e-RCs. Furthermore, e-commerce and e-portals provide clusters with access to new markets and indirectly help to build the resilience of the beneficiaries.



The scheme promotes social equity as it provides additional incentives for MSMEs owned by women, SC/ST and North Eastern Region (NER) by providing 50% additional contribution. However, it doesn't address other social aspects such as health and safety, giving it a below par score of 0.29. Given the current scope of the ICT scheme, there is limited scope to significantly improve its social score.

This scheme does not address any environmental aspects of sustainability and therefore scores a '0' on this dimension. However, there is scope to improve this dimension by providing incentives for green IT initiatives.

Recommendations to improve 'scheme sustainability'

- This scheme could be improved by increasing the quantum of assistance for IT based infrastructure at the cluster level to account for escalation of costs associated with IT infrastructure. *An additional incentive can be provided for procurement of green hardware & software i.e. equipments and products that are more energy efficient, easy to dispose off or recycle etc.*

2. Cluster Development Programme (CDP)

Scheme objectives and inputs

The main objectives of the scheme is to support the sustainability and growth of MSEs through four activities that include (a) preparation of diagnostic study report (DSR),(b) soft

interventions, (c) preparation of detailed project report (DPR) and (d) hard interventions and infrastructure development.

An SPV (i.e. a registered association of 10-20 MSEs) under the oversight of a Steering Committee (set up under the aegis of DI-MSME), will be eligible to apply for the scheme.

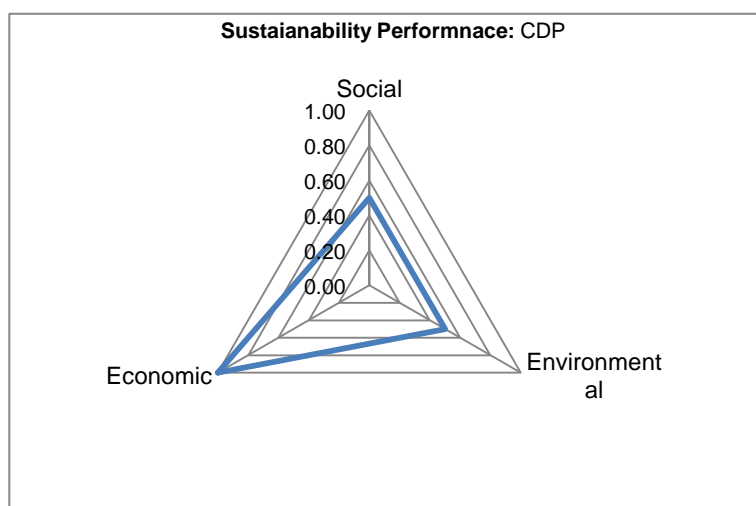
Scheme Analysis on Sustainability Aspects

The scheme can have a far reaching economic impact by providing common infrastructure and facilities that enable technology transfer, skill development, innovation and access to new markets. It, therefore, is congruent with almost all economic aspects of sustainability.

The scheme meets various social objectives (especially those on inclusiveness) such as encouraging social equity by encouraging women entrepreneurs and by giving additional financial incentives

to socially disadvantaged groups such as NE & Hill States, SC/STs and industrial areas/ estates with more than 50% (a) micro (b) women owned (c) SC/ST units. Furthermore, it provides financial assistance for diagnostic study reports that, among other things, are also required to assess the health and safety improvement needs of clusters. The scheme can further be improved to meet objectives such as improved working conditions, and sound governance. Overall the scheme is moderately consistent with the social dimension of sustainability.

On the environmental front, the scheme provides funding for Common Facility Centres such as common effluent treatment plants, thereby assisting in management of effluents by MSEs. Under infrastructure development, the scheme also states that the location of the project should not create any ecological imbalance by disturbing environment. The current environmental score of 0.50 makes the scheme moderately consistent with environmental aspects.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.50 | 0.50 |

Recommendations to improve 'scheme sustainability'

- *Conditional allowance could be given to SPVs that own private land and not state owned land, after duly establishing its credibility.* Indicative criteria for evaluating private land owners can be elaborated in the scheme.
- Financial support for 'development of' & 'awareness towards' eco-friendly infrastructure and green buildings should be provided. *Joint environment and social projects undertaken in the clusters should be incentivised.*
- *Social and environmental aspects should be included in project appraisal stages for infrastructure development component of CDP.*

3. Credit Linked Capital Subsidy Scheme (CLCSS)

Scheme objectives and inputs

The main objective of the scheme is to facilitate technology up-gradation for induction of well established and improved technologies. All the Scheduled Commercial / Cooperative Banks, Regional Rural Banks (RRBs), State Financial Corporations (SFCs) and North Eastern Development Financial Institution (NEDFi) are eligible as Primary Lending Institutions (PLI) under this scheme after they execute a General Agreement with any of the nodal agencies, which are the Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD).

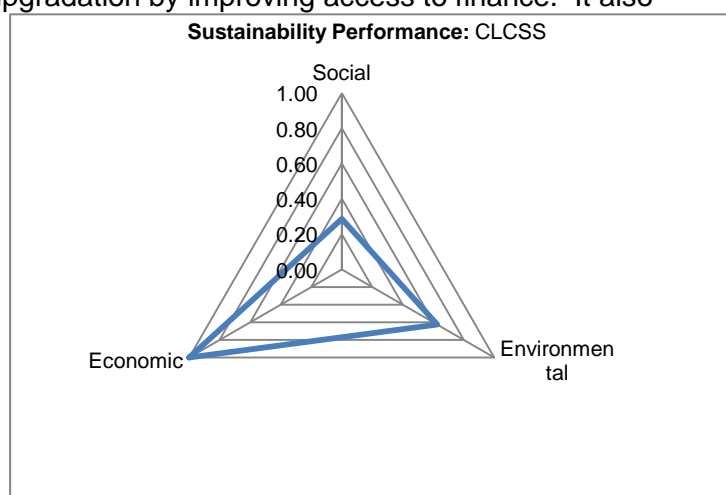
The eligible beneficiaries include Sole Proprietorships, Partnerships, Co-operative societies, and Private and Public limited companies in the SSI sector (MSEs). Priority shall be given to women entrepreneurs.

Scheme analysis on Sustainability Aspects

The scheme enables technology upgradation by improving access to finance. It also indirectly fosters innovation and facilitates market access.

Although the scheme mentions socially disadvantaged groups and articulates the need to prioritise women in particular, there are no additional incentives available for women, SCs/STs and other socially disadvantaged groups. The scheme is, therefore, only slightly consistent with the social dimension (scoring 0.29) and can be further improved on this front.

On the environment front, the scheme promotes and subsidises the uptake of many environment friendly technologies such as environmental control devices, water recovery and waste disposal technologies, pollution control equipments etc. However there is no additional incentivisation of technologies with quantifiable environmental benefits in terms of energy savings, material savings, reduced disposal cost, reduced transportation cost, reduced water consumption etc. Due to the inclusion of a eco-friendly technologies but with a lack of additional incentives, the scheme has been assessed as consistent with the environmental dimension of sustainability.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.29 | 0.63 |

Recommendations to improve 'scheme sustainability'

- It was pointed out by stakeholders that many technologies and industries are not covered within the current scope of the scheme. The industries that can avail this scheme and the technologies for which the scheme is applicable, should be increased and a system for making timely modifications to this list should be implemented.

- The scheme should be modified so as to provide additional incentives for energy efficient and eco-friendly technologies.
- The scheme states that it gives priority to women among other applicants. The application form for assistance under CLCSS for Technology Upgradation of the SSIs also asks for the category of borrower (women entrepreneur, SC/ST, physically handicapped etc.). However, the scheme should clearly define the incentives given to such disadvantaged groups.
- The scheme states that commercial banks should accord priority in providing adequate working capital support to the assisted units, in light of the fact that success of the technology upgradation scheme depends upon the availability of adequate working capital. The scheme should detail the degree and nature of working capital support to be provided by commercial banks to the selected units.

4. Credit Guarantee Fund Scheme (CGFS)

Scheme objectives and inputs

The objective of the CGFS is to provide collateral-free credit to both existing / new MSEs. The MoMSME and SIDBI have established a trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (also known as CGTMSE) to implement this scheme. The institutions eligible for support under the scheme, are Scheduled Commercial Banks and select Regional Rural Banks. The National Small Industries Corporation Ltd. (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi) and SIDBI have also been made eligible institutions.

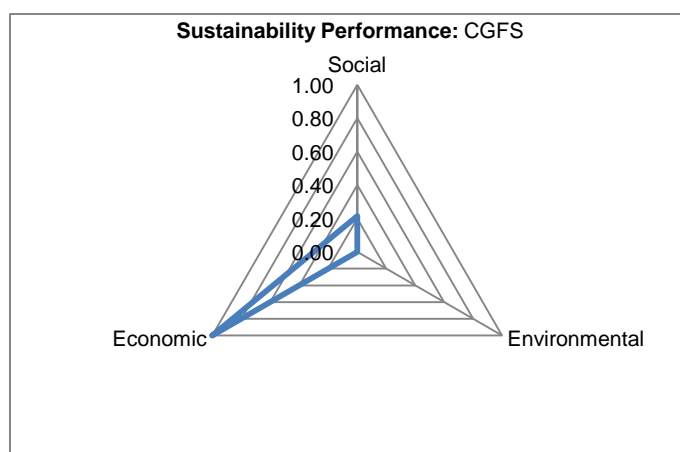
Scheme analysis on Sustainability Aspects

By providing collateral-free working capital loans in addition to term loans, the scheme helps MSEs meet their Working Capital requirements, a relatively unaddressed need.

The CGFS also makes special provisions for disadvantaged groups and incentivises women entrepreneurs.

The scheme is slightly consistent with social aspects *scoring 0.21*. The nature of the scheme doesn't allow for extension of its scope to include other social aspects.

The scheme does not directly or indirectly address any of the environmental aspects. However, there is sufficient scope to include environmental aspects in the scheme, so as to facilitate procurement of environmentally beneficial technologies.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.21 | 0.00 |

Recommendations to improve 'scheme sustainability'

- Stakeholders (including implementing agencies and MSMEs) suggested that the annual service fee and 1-time guarantee fee in the scheme should be waived off at

least for micro-enterprises. *The waiving off of the annual fee could be considered for its applicability. A similar provision can be made for MSEs that use technologies and/or manufacture products that have a positive environmental footprint.*

- *Accounting for inflationary pressures in the recent past and the resulting escalation in costs of equipment, the limit of Term Loans and Working Capital facility could also be raised to Rs. 3 Crores from the current limit of Rs.1 Crores per unit.*
- Stakeholder meetings indicated being at the beck and call of lending institutions, which are not aware of the technicalities and are often weary of furthering loans under the scheme. Accordingly, *the scheme should detail a structured “grievance redressal mechanism” with representatives from MSME DI, banks and industry associations.*
- *Financial Institutions should use a different appraisal model for start-ups, and technology and capital intensive sectors, keeping their challenges and context in mind.*
- *Allocation of more funding towards advertisement and publicity expenses will enhance the coverage and the success of the scheme, e.g. using boards in local language could be displayed in government offices and banks.*

5. Reimbursement of certification charges of acquiring ISO-9000 / ISO 14000 / HACCP Certificate

Scheme objectives and inputs

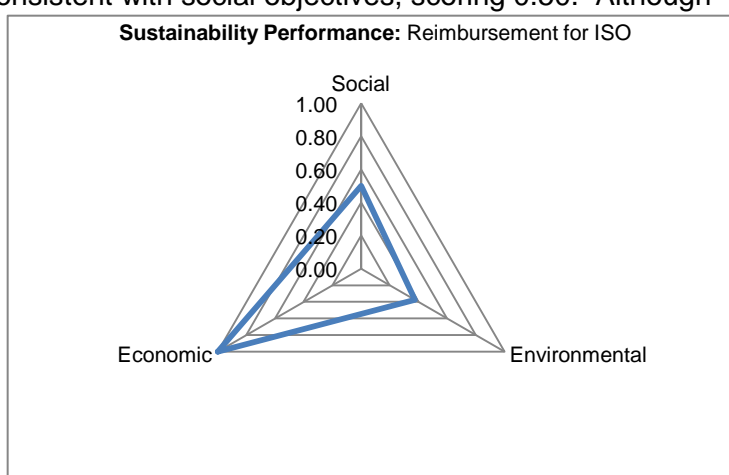
The main objective of the scheme is to promote adoption of ISO standards, by reducing the cost of obtaining ISO certifications. All MSEs having an Enterprise Memorandum No. are eligible to avail the benefit.

Scheme analysis on Sustainability Aspects

Adoption of standards such as ISO 14001 and ISO 9001 will bring in additional economic benefits by helping MSEs reduce their manufacturing cost, compliance cost, and by facilitating access to international markets that command high environmental standards.

The scheme is only moderately consistent with social objectives, scoring 0.50. Although the scheme application form solicits whether potential beneficiaries are women and SCs/STs, the scheme doesn't give additional incentives to women, SC/STs and other disadvantaged groups.

The scheme is clearly beneficial from an environmental standpoint as it incentivises adoption of ISO 14001. Although the scheme reimburses ISO 14001 certification, it doesn't make any provisions to ensure sound implementation if such systems through in plant verifications.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.50 | 0.38 |

The scheme is therefore slightly consistent with environmental dimension scoring 0.38 on the same.

Recommendations for improving ‘scheme sustainability’

- *Reimbursement under the scheme should be given only after “in plant verification” of the suggested standards, which shall help monitor whether ISO standards are implemented at the units. This is important because implementing agencies have cited that even though ISO certificates are given post document review & evaluation, majority of MSMEs do not adequately understand and practically implement the same.*
- *The scheme should provide additional incentives to women, SC/STs and other socially disadvantaged groups.*
- *The NMCP scheme on QMS/QMTs also provides financial assistance for implementation of QMT and QMS such as ISO 9001 and ISO 14001 to the extent of 2.5 Lakhs per unit. To avoid duplication, it may be useful to include reimbursements for these standards under one scheme rather than under two different schemes.*

6. Market Development Assistance (MDA)

Scheme objectives and inputs

The scheme is aimed at encouraging small and micro exporters in their efforts at tapping and developing overseas markets. The activities for which the scheme provides funding include participation by manufacturing MSEs in international trade fairs / exhibitions under the MSME India banner; sector-specific market studies by Industry Associations, Export Promotion Councils etc, and assistance on implementation of Bar Code etc.

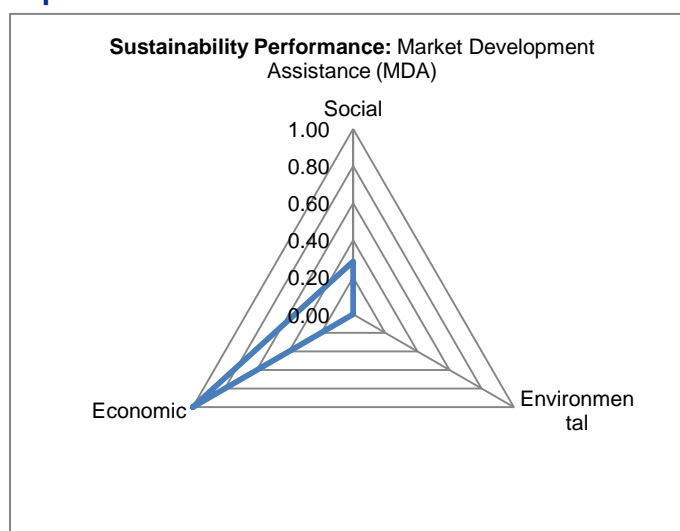
The scheme is eligible for all MSEs that have a valid permanent registration with Directorate of Industries / District Industries Centre. The MSEs can avail this facility only once a year and only one person of the participating unit is eligible for subsidy on airfare.

Scheme analysis on Sustainability Aspects

On the economic front, the scheme has been able to enhance access of MSEs to international markets.

On the social dimension, the scheme even accounts for social equity by making specific provisions for Women / SC / ST Entrepreneurs and Entrepreneurs from NE Region, thereby scoring 0.29 on social aspects. There is limited scope of improving the social scores further, given the current scope of the scheme.

The scheme is silent on environmental aspects. However, there is potential to improve the scheme on this dimension.



Recommendations to improve 'scheme sustainability'

- *The scheme could incorporate a component on 'financial assistance for creation of Trade Facilitation Centres' in international markets, where information on Indian MSMEs is provided (e.g. industry catalogues and directories of Indian MSMEs, marketing material on Indian MSMEs in local languages etc). This Trade Centre should liaise with the Commerce Attache at the Indian Embassy in the respective countries, for assistance on business development activities in international markets.*
- *The current list of trade fairs/exhibitions should be updated and possibly expanded, covering wider product categories, more international markets, for a larger number of events that units can participate in. This step might also improve uptake of scheme by bringing more MSEs within the scope of the scheme. Further, trade fairs that promote eco friendly products and technologies should also be prioritised and added in the list.*
- *There is scope to expand scheme coverage by assisting entrepreneurs with other supportive marketing activities such as creation of portals and online payment gateways, branding, print and media advertising, study tours for MSEs etc.*
- *The scheme language states that there is provision of funding for sector specific market studies by Export Promotion Councils, industrial associations etc, but is silent on the quantum of financial assistance. Clarifying on these details could be instrumental in assisting time constrained MSEs to assess international market scenarios and accordingly price and position their products.*
- *It was suggested by both implementing agencies and unit owners that the limit of subsidy on air fare and space rental at Rs. 1.25 Lakhs was insufficient, and should be revised upwards to at least Rs. 2 Lakhs.*
- *Often MDA applications submitted by entrepreneurs are approved at the last minute leaving them little time to prepare for upcoming trade fairs. The scheme should clearly specify a 'minimum response time' that DC-MSME officials will take for processing these applications so that selected entrepreneurs get sufficient lead time.*
- *Currently the scheme funds are disbursed on a first come first served basis, a method that precludes the requirement of need assessment. Indicative criteria for selecting entrepreneurs who can avail MDA schemes should be included in the scheme. This will help ensure that scheme funds are appropriately utilised and are disbursed to credible units. MSEs that promote environment friendly technologies or produce eco friendly products could be provided additional incentives in the scheme.*

7. Financial assistance for States/State Agencies for setting up Mini Tool Room and Training Centres

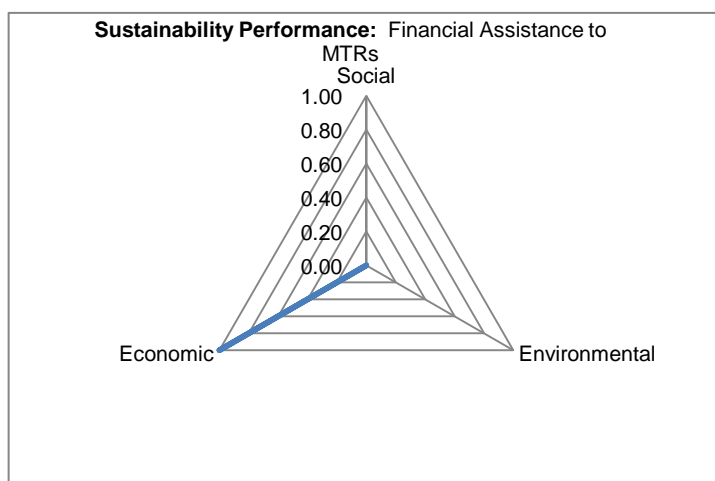
Scheme Objectives and Inputs

The objectives of this scheme are to increase the number of tool rooms that manufacture tools using advanced processes and to provide training centres for manufacturing tools. This will be achieved through financial assistance to states to setup common tool rooms and training centres. This scheme is aimed at state governments desirous of setting up mini tool rooms and training centres.

Scheme analysis on Sustainability Aspects

In terms of economic aspects of sustainability, this scheme directly addresses development of infrastructure through its stated objective of developing common facilities for tool making. In addition, this scheme improves access to technology and promotes skill development through the implementation of training centres and consulting services on tool making. This scheme also indirectly addresses the economic objectives of innovation leading to improved resilience and adaptability.

The scheme does not address social and environmental aspects. Both of these aspects can be further improved, as explained in the recommendations section below.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.00 | 0.00 |

Recommendations to improve 'scheme sustainability'

- Clear parameters for selecting the location of Tool Rooms should be included in the scheme design. *Controls must be put in place to avoid supporting industries that have adverse environmental or social impacts. Including these parameters would increase the score of this scheme with regards to social and environmental aspects of sustainability.*
- *One of the objectives of this scheme is to leverage Mini Tool Rooms as centres for providing consultancy and information services. Centralised consulting and information centres would provide an effective platform for engaging with MSMEs and small industries on sustainability concepts. Including sustainability consulting within the objectives of the scheme would help to spread awareness about responsible business amongst MSMEs and improve the sustainability score of this scheme.*

8. Scheme of Micro Finance Programme

Scheme objectives and inputs

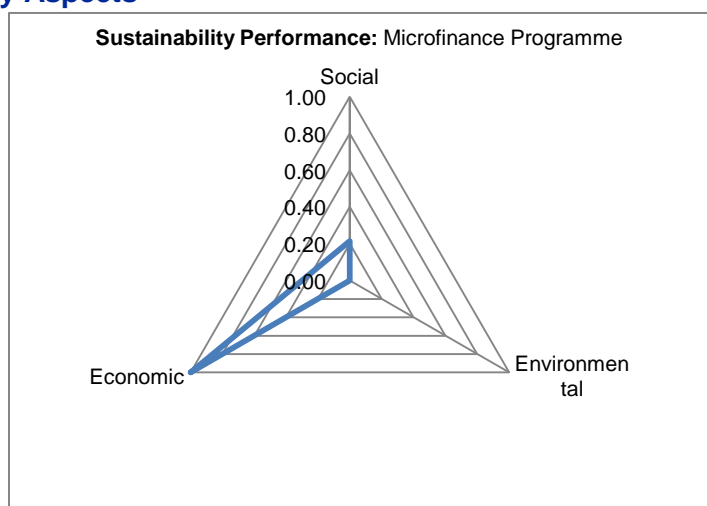
The objective of this scheme is to increase access to finance for MSMEs, by overcoming constraints in the existing microfinance programmes being administered by SIDBI. The activities that will help in achieving the stated objectives include arranging fixed deposits for Microfinance Institutions (MFIs) and NGOs so as to reduce loan deposit amounts, training and studies on micro finance programme through EDIs and SSIs, institution building for 'intermediaries' for identification of viable projects etc.

This scheme can be availed by MFI/NGOs working across MSME clusters.

Scheme analysis on Sustainability Aspects

In terms of economic aspects of sustainability, this scheme directly addresses access to financial services. The scheme also directly addresses capacity development on microfinance through the awareness programme outlined in the scheme. Other economic aspects which are indirectly impacted through this scheme are access to technology, access to market and improved innovation.

Though the scheme indirectly impacts social equity, this scheme does not address any environmental or social aspect of sustainability directly.



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.21 | 0.00 |

There is scope to improve the score on social aspects by making specific provisions for women and socially disadvantaged groups. However, given the nature of the scheme, there is limited scope to improve upon the scheme's environmental score.

Recommendations to improve 'scheme sustainability'

- *The geographic coverage of this scheme should be addressed through the scheme design and financial targets.* Currently, the poorer regions that are in greater need of the programme are being ignored in favour of 'better banked' areas. By specifically including incentives for MFIs to target underdeveloped regions (thereby increasing the outreach of the scheme), the scheme would be more purposefully aligned with its stated objective. *This would also help to improve the scheme with regard to the social aspect of social equity.*
- *Currently the scheme targets manufacturing, services sector and non-farming activities. Broadening the scope of the scheme to include on-lending off-farming and allied sectors would improve the coverage of this scheme.*
- *A Monitoring & Evaluation component for assessing the impact of the MicroFinance programme under this scheme should be outlined in the scheme documents. Recent studies have indicated that this scheme may have a weaker social influence than was assumed. Therefore, even though the scheme may have been designed with a forward-thinking sustainability-compatible perspective, it should be periodically evaluated against current data, in order to ensure its effectiveness.*

9. Scheme for National Awards

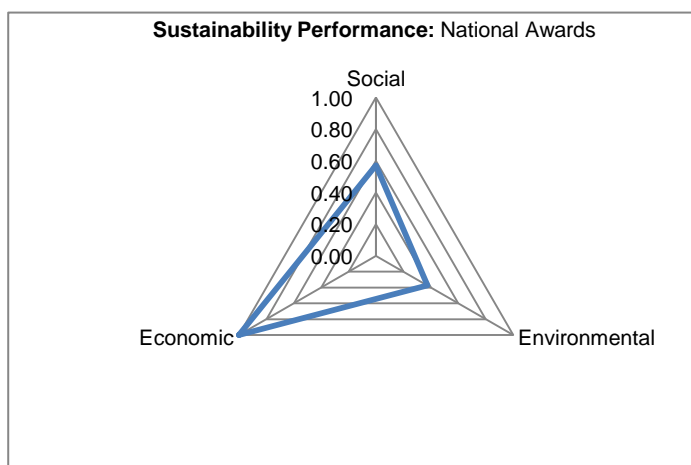
Scheme Objectives and Inputs

The objective of this scheme is to reward outstanding achievements by MSMEs in order to promote entrepreneurship in the sector. The awards are to be given for every calendar year to deserving entrepreneurs managing MSMEs, having a permanent SSI registration or having Entrepreneurs Memorandum Part II, and been in production for three years.

Scheme analysis on Sustainability Aspects

In terms of economic parameters of sustainability, this scheme directly promotes innovation, as it encourages successful entrepreneurs in the MSME sector. Further, the scheme indirectly impacts access to market, by popularising awardees.

The scheme also addresses social aspects of sustainability, such as promoting social equity by reserving special awards for women entrepreneurs, SC/STs and MSMEs from NER. Other social aspect that is covered by the selection criteria of the scheme is health and safety of stakeholders, as part of employee welfare measures. The scheme is moderately consistent with social objectives, with a score of 0.57



| Dimensions | Social | Environmental |
|------------|--------|---------------|
| Score | 0.57 | 0.38 |

With respect to environmental parameters, the evaluation criteria in the scheme include environmental control measures to alleviate air, water and noise pollution. However, the scheme scores 0.38 on this dimension, as the scheme doesn't acknowledge climate change adaptation as a criterion for assessing SME performance.

The scores can be slightly improved by adopting recommendations given below.

Recommendations to improve scheme sustainability

- The scores for environmental and social aspects of sustainability for this scheme could be improved by *introducing additional awards for MSMEs that have an outstanding record in terms of environmental and social benefits*. This would incentivise MSMEs to adopt environmentally and socially friendly practices.
- *The scheme could be modified by adding a component for social responsibility in its criteria*, thus promoting responsible business behaviour towards local communities.

4. Impact Assessment framework for MSME schemes

DC-MSME is implementing the 'National Manufacturing Competitiveness Programme' and nine other similar schemes such as CDP, CLSS, CGS, and MDA. As part of its normal M&E programme, DC-MSME measures performance of these schemes with respect to meeting physical and financial targets and reports the results in its Annual Report of MoMSME and Result Framework Document⁵. These schemes are also assessed at the end of every 'Five Year Plan' period for financial allocation in the next plan period.

However, in absence of a proper *Impact Assessment Framework (IA Framework)* for these schemes, most of these schemes are assessed only on the basis of fund disbursement, fund utilization and number of beneficiaries covered. These assessments often do not consider the overall impact of these schemes in different dimensions such as economic, environmental and social. In view of the larger debate on accountability of public expenditure, evaluating impact of policies and schemes is becoming increasingly important (OECD, 2002)⁶. The emphasis on more accountable and comprehensive impact evaluation of public schemes necessitates creation of a holistic and comprehensive impact assessment framework/s.

The purpose of this chapter is to describe the utility of impact assessment for DC-MSME schemes and proposes an 'Impact Assessment Framework' from a futuristic (design) perspective, be it review of existing schemes or development of new ones. Although, the guidelines prescribed here address mainly the DC-MSME schemes, the same principle can be widely applicable to schemes for the MSME sector in India⁷. This Chapter provides brief guidelines and instructions for developing an Impact Assessment approach (by way of a framework) and helps in deciding the timing (mid-term, end term), research methods (qualitative, quantitative, mix methods), and the indicators for the Impact Assessment.

4.1. Limitations of the IA Framework

- The framework is based on generic observations that Indian MSME policies need a much more comprehensive approach during the design stage. There is no scheme evaluation study that hints towards the need for a structured framework.
- The IA Framework is a generic framework, and needs to be combined with the policy specific requirements to make it more effective and contextual. It is only a guiding document and not elaborating on the detailed methodology for conducting scheme-specific impact evaluation studies.
- Ideally, impact assessment should be integrated with the overall framework of policy design and its process should be integrated with policy rollout. However, in the DC-MSME context, design phase for most of the schemes for 12th FYP would have been complete and the schemes are already under implementation. Therefore, the proposed IA framework for the existing can be used as ex-post impact assessment (CGIAR, 2008)⁸.

⁵ RFD, MSME (website: <http://msme.gov.in/>)

⁶ OECD (Organisation for Economic Cooperation and Development). 2002. Glossary of Key Terms in Evaluation and Results-Based Management. OECD Publications: Paris, France

⁷ This document imparts only general advice on the conduct of IAs so is no substitute for academic texts on the principles of research evaluation.

⁸ CGIAR(Consultative Group of International Agriculture Research). 2008. Strategic Guidance for Ex Post Impact Assessment of Agricultural Research, Green Ink Publishing Services Ltd, UK

- The impact of policy initiatives could be positive or negative, direct or indirect and intended or unintended. The IAF is designed to mainly assess the intended changes of the scheme. It provides limited scope to assess ‘unintended’ changes; however, a few unintended changes that can directly be attributed to the scheme can also be assessed.

4.2. Description of the IA framework

The Impact Assessment Framework, henceforth referred to as ‘IAF or the ‘IA Framework’ in the document, builds on the existing definition of impact assessment of public policies that states ‘impact assessment’ as **‘an objective test of changes that have occurred, and the extent to which these changes can be attributed to a MSME policy’** (Campbell & Harper, 2012)⁹. This framework is designed to provide a practical framework to enable policymakers to work through the impact assessment process. Firstly, IAF suggests a comprehensive list of ‘changes’ that might occur as a result of DC-MSME schemes. Secondly, it discusses the **‘feasibility of attributing’** the changes to MSME policy interventions. Thirdly, it describes whether these changes are measurable and if yes, **‘when’** and **‘how’** to measure it. The IAF further provides office of DC-MSME with a template for reporting the results as per the Result Framework Document.

4.2.1. Seven Theme(s) of the IA Framework

The proposed Impact Assessment Framework is structured around seven themes. The IA Framework factors in the **barriers to growth of MSME sector**¹⁰ in India as identified by the Planning Commission. The commission identifies barriers to the growth of MSME sector in six categories. These categories are 1) access to finance, 2) access to technology, 3) market & procurement, 4) infrastructure, 5) skill development & training, 6) institutional structure. The stated objective of all the DC-MSME scheme is to address one or more of these barriers. The framework intends to **measure the impact of the schemes as per their stated objectives.**

Social and environmental sustainability are identified as major factors in achieving long term and inclusive growth of the sector. Therefore, this framework has an **additional theme of ‘sustainability’** that includes social and environmental aspects discussed in the Section 3. Inclusion of this additional dimension would enable policy makers to acknowledge and consider sustainability aspects during an impact assessment.

4.2.2. Indicators of Impact Assessment

The key to impact assessment is ‘measurement of the changes’ observed under these seven themes. These changes may be intangible and difficult to measure, and often cannot be measured directly. Hence, this framework, proposes a list of indicators that cumulatively reflect the effectiveness of the scheme on different themes. According to various definitions (Patten, 1996)¹¹, (Cassidy & Narayan, 2001)¹², (UNDP, 2002)¹³, indicators are the factors or variables that provide a simple and reliable means to reflect

⁹ Quality in policy impact evaluation: understanding the effects of policy from other influences (supplementary Magenta Book guidance). 2012

¹⁰ Report of working group on MSME Growth for 12th FYP

¹¹ Michael Quinn Patton, Utilization-Focused Evaluation. 1996. SAGE Publications

¹² Deepa Narayan and Michael F. Cassidy, A Dimensional Approach to Measuring Social Capital: Development and Validation of a Social Capital Inventory, Current Sociology. 2001. Sage Publications,

¹³ UNDP, RBM [Results-Based Management] in UNDP: Selecting Indicators, Signposts of Development, (UNDP, 2002)

the changes connected to an intervention. They are not same as desired change but an indicator of that change.

Table 10 below shows the key themes that are measured in the framework and the list of indicators for each dimension. Every theme has a set of indicators that can help in measurement of impact on the respective themes. As stated earlier, most of the schemes fall under one or more of these seven themes, and a scheme's impact can be measured by measuring the indicators relevant for that particular scheme. It is intended that sustainable development should become a central consideration in policy-making, however, the same may not be reasonably practical or applicable for many of the policies. Therefore, the indicators under the seventh theme of sustainability should only be used to the extent possible for impact assessment.

These indicators are further classified as subjective and objective. Objective indicators are measures of quantities or amounts that changed as a result of scheme. An example would be '**size of credit given to MSME**': 50% increase in the amount of loan given to MSMEs. Subjective indicators are more about people's judgments or perceptions and change in that as a result of the scheme. An example for this would be the indicator, '**processing time of loan application**': 40% increase in the level of confidence of MSME about reduction in loan processing time among the surveyed MSMEs.

4.2.3. Frequency of measurement

The o/o DC-MSME regularly collects data on its scheme for preparing its annual progress report. However, the data collection for the IA Framework requires a much more structured and comprehensive data collection process. The IAF contains a number of indicators that necessitate regular data collection as well as planned data collection at different time intervals. This comprehensive data collection process, depending on its scale, complexity and frequency can be a resource intensive operation. In undertaking the impact assessment, it is important to take account of the feasibility of impact study: *the trade-off between the resources employed and usefulness of the output*. Significance of the policy and intended impact should form the basis of detail and extent of the impact assessment.

It is proposed that impact assessment should be done twice in a plan period - first at the mid-term review and second at the end of term evaluation. The IA Framework for mid-term review should ideally consist of all the objective indicators that are part of the end-term IA Framework. However, depending on the schemes' context and nature, the set of indicators can be more or less. The MTR indicator selection is also dependent on the frequency of data available for certain indicators, as some indicators might be only valid after the scheme completion. While deciding for impact assessment, the key consideration should be: **a) scope and scale of the scheme, b) feasibility of such exercise, and c) utility for decision makers.**

Table 9: Evaluation plan for indicators

| Frequency of exercise | Objective Indicators | Subjective Indicators |
|------------------------|--|--|
| End Term Evaluation | <ul style="list-style-type: none"> All the Objective indicators relevant to the scheme | <ul style="list-style-type: none"> All the subjective indicators relevant to the scheme |
| Mid- term | <ul style="list-style-type: none"> All the Objective indicators relevant to the scheme | NA |
| Annual Data collection | <ul style="list-style-type: none"> Some of the relevant indicators such as number of firms accessing finance, etc | NA |

Table 10: Seven themes and indicators under the schemes

| | Access to finance | Access to technology | Market & Procurement | Infrastructure | Skill Development & Training | Institutional Infrastructure | Sustainability Dimensions |
|------------------|--|--|---|---|---|--|---|
| Relevant Schemes | Credit Guarantee Fund Scheme, Micro Finance Programme | CLCSS, TEQUP, Promotion of ICT, QMS/ QTT, LMCS | MDA, Design Clinic Scheme, MATU | CDP Mini Tool Rooms | NMCP- all scheme, CDP | | CDP, CLCSS |
| Indicators | <ol style="list-style-type: none"> Quantum of debt available for MSMEs Quantum of equity and alternative finance used by MSMEs Cost of debt capital Application processing time (Subjective) Size of loan accessed in different categories Success rate of loan application Type/ size/ sectors/ region/ applicant categories Total number of firms accessing finance (category wise- Sectors/ clusters/ regional spread) | <ol style="list-style-type: none"> Technology used by MSMEs Production cost Labor productivity (Subjective) Optimization in material use and reduction in waste Energy Efficiency improvement Adoption of Clean & Renewable Energy Based Technology adopted Adoption of Information and Communication Technology (Subjective) | <ol style="list-style-type: none"> Cluster level, state level and national level B2B portals with connectivity to international markets Cluster level organisation as focal point for all marketing related activities (Subjective) Marketing infrastructure: testing facilities, dissemination center, display-cum-exhibition center Backward supply chain linkages (Subjective) | <ol style="list-style-type: none"> Upgradation of existing industrial infrastructure Sustainable Industrial Infrastructure (Subjective) Operation and Maintenance (Subjective) Modular Estates for Start Ups Upgradation of / new quality testing laboratory Tool Rooms | <ol style="list-style-type: none"> Training Capacity Spread of the training- region/ cluster/ gender Self employment Certified Trainers Standardisation of training curricula Specialised training programmes/ institutes | <ol style="list-style-type: none"> Regularisation of Environmental Laws (Subjective) Regularisation of Labor Laws (Subjective) Strengthen DIC and better ties with DC (Subjective) E-filing for EM-I and EM-II to simplify the registration | <ol style="list-style-type: none"> Firm's income and Profitability Job Created (Subjective) Land Use Management (Subjective) Reduction in waste through recycling, re-use and innovation in disposal techniques) Reduction in use and generation of hazardous materials Optimization of process water use Waste water management (recycling and re-use) (Subjective) Water withdrawal from local water sources (clusters; EIA) Conformance to Environmental regulations (Air quality, water use and discharge, noise, hazardous waste, sector specific requirements) Reduction Green House Gas/ Carbon Emission from operations Reduction in Lost time cases and rate Existence and functioning of works committee and Grievance redressal committee for workers (Subjective) Offsite emergency preparedness plans for large clusters (Subjective) Investments towards community welfare (Subjective) |

4.3. Methodology of IA framework

The IA framework is divided in **three** major stages and each stage requires some key consideration (Figure 4). These major stages are:

1. Screening the Policy
2. Assessing the Impacts
3. Prioritise and take decision

The first stage consists of **screening the policy** for selection of relevant indicators for the scheme. The second stage is **measuring changes in the factors** that contribute to MSME's sustainable development (access to finance, market and technology, institutional structures and processes etc). This stage also helps in understanding how these link to one another, and the multiple interactions between aspects that affect MSME sector. Third and last stage is to **prioritise the impact and take decisions**. The main actions required during each of the four stage and key consideration/ decision tools for each of these stages are provided below.

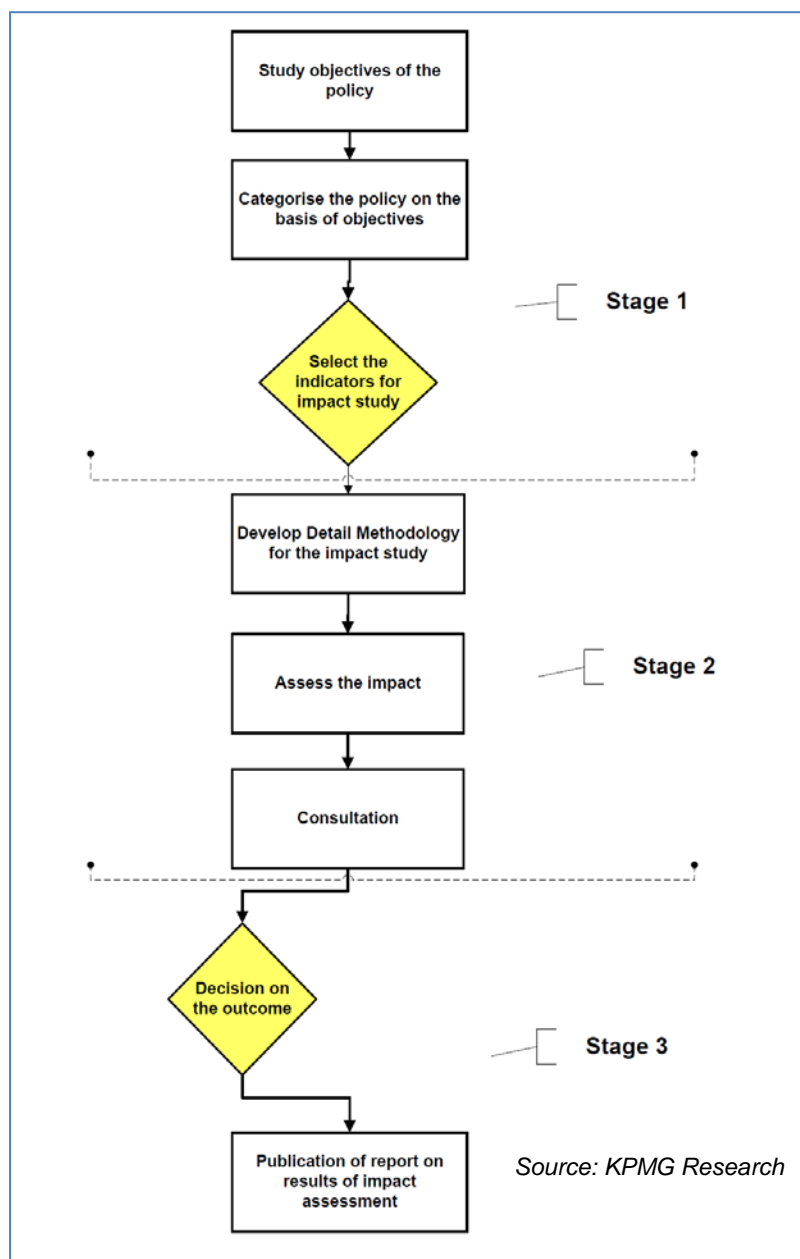
4.3.1. Screening the policy

Policy screening has three sub components: studying the objective of the policy, categorizing the scheme as per the seven themes, and select the relevant indicators for the impact assessment.

1. Study the objectives

At the outset of the impact assessment process it is important to consider the aims of the scheme as stated in the scheme document. The aim of the scheme defines what the DC-MSME intends to achieve, it should therefore **describe the intended outcomes** of the policy. It is useful at this stage to **include not only the overall aim of the scheme**, but also, where available, the more specific objectives, particularly where these sub-objectives / milestones help to clarify how the policy will operate. It is also useful to consider at this stage how the policy interacts with

Figure 4: The process flow for an IA framework



other policy areas. It is for this reason that defining the aims of the policy is the critical first step in the impact assessment process, effectively setting the term of reference.

2. Categorise the scheme on seven themes as per the scheme objective

Most of the DC-MSME scheme will fall under one or more of the seven themes as defined in the last chapter. Categorising the scheme under the respective themes will be the first step in identifying the relevant indicators for the scheme assessment. It is to be noted that many schemes are designed to address more than one constraint and hence care has to be taken to recognize all the categories. It is also important to note that the last theme of sustainability should be considered carefully because the indicators may not be so evident based on the articulated and intended impact of the scheme. Therefore, both indirect and unintended impact of the scheme need to be identified.

3. Select the indicators for the study / decide subjective-objective

The next step after categorizing the scheme under one of the theme is to select relevant indicators from the given list in Table 10 under each of the applicable theme/s. This is the most important step that will determine quality of the impact assessment. Once the basic components have been determined, potential indicators need further screening before entering into final consideration. The test for selection of indicators will be helped by answering two questions by the policy maker; **1) Does the indicator capture or reflect changes for a specific theme or specific objective? Is it possible to measure the change in the indicator?**

The following framework in Figure 4 and Box 1 could be a helpful guide in answering the two questions and in selecting the indicators.

Box 1: Guidelines for setting indicators

- Know the size or magnitude at the beginning (refer baselines, *if baseline exists*).
- The extent of (visible) change needs to be large enough to be significant.
- The amount of change needs to be small enough to be achievable within the means (i.e. budget, staff, and capacity) of the project.
- Review past records and reports for previous experience.

Source: KPMG analysis

4.3.2. Assessing the impact

1. Develop the methodology for Impact Assessment

The success of impact assessment rests on the availability of high quality data derived from a variety of sources. Before the assessment, it is therefore essential to identify data requirements and undertake an audit of available evidence. This assessment will provide basis for new data collection, if needed. Upon identification of the data needs, proper methodologies for data collection require to be developed. The data collection methodology can include, primary data from stakeholders such as entrepreneurs, MSME owner/s etc, secondary data from sector publication etc. (*Refer to Annexure 4. for guide on sources of data, and other information*)

Figure 5: Checklist for assessing choices

| Helpful checklist in assessing choices, and the value of those choices. | |
|---|--|
| Targeted | <ul style="list-style-type: none"> • Element of change: What is changing? • Target group: Who is involved in the change? • Location: Where is the change located? • Timeframe: When is the change to happen? |
| Measurable | <ul style="list-style-type: none"> • Specific unit(s) of measurement to be used: What will be measured, counted, weighed or sized? • Reference to a baseline/benchmark for comparison: What was the measurement at the starting point? • Qualities are defined: Words like "effective, appropriate, successful," are defined clearly. |
| Reliable | <ul style="list-style-type: none"> • Quality of the information is credible. • Assumptions are minimal, or at least clearly stated. • Direct connection between the indicator and the aspect that is being measured • Everyone collecting the information will find the same thing. |
| Feasible | <ul style="list-style-type: none"> • Means of verification is viable and doable. • Information can be obtained • Resources available with DC-MSME |
| Utility for decision maker | <ul style="list-style-type: none"> • The information is linked to key decisions. • The information has major importance in the decision. |

As mentioned in Box 1 above, the target setting for indicators is important to know "what" is to be measured and "how much" of it can be measured. All the above mentioned steps for selection of indicators are part of overall methodology of IA.

A lot of evidence for quantitative indicators required for the IA Framework may be available with policy makers; and some of them require only data collection from various sources and compilation/collation of the same to measure the indicators. MoMSME (and the DC office) may need to coordinate its data collection efforts across different departments (Table 11).

Table 11: Data collection plan

| List of Indicators | Overview of Impact | Evidence Requirements | EVIDENCE | | | |
|--------------------|--------------------|-----------------------|-----------------------|-----------------|-----------------------------|-----------------|
| | | | Available Evidence | | Evidence to be commissioned | |
| | | | Subjective/ Objective | Sources of data | Subjective/ Objective | Sources of data |
| Indicator 1 | | | | | | |
| Indicator 2 | | | | | | |
| Indicator 3 | | | | | | |
| | | | | | | |

Source: KPMG analysis

However, a number of subjective indicators (required for assessing different aspects of impact or intended impact) may not exist. The data for such indicators need to be gathered afresh. It is important to emphasise that evidence is not just about objective data or statistics; it is also about subjective experience, judgment and perception. Some of the most relevant and valuable information tend to be qualitative (subjective) in nature

and comes from interaction with individual firms / enterprises. These independent studies can highlight the impact in different dimensions - “what works” and “what does not work”.

2. Assess the impact

After measuring indicators and collecting evidence in support of the same, an analysis of the same is the next step in impact assessment. Throughout the Impact Assessment process, the underlying assumption is that the changes took place due to the activities being carried out as envisaged in the DC-MSME scheme/s. However, this assumption can prove to be difficult to substantiate and attribute. A more credible approach is to identify and acknowledge all the major contributing factors and illustrate how the program/scheme contributed along with the other factors. This implies additional analysis and understanding of the other factors.

As a part of the analysis, it would be important to differentiate between positive and negative impacts and significance of these impacts with respect to the scheme objectives. It would also be important to understand the probability of occurrence of these impacts so that the action can be taken based on the achieved results. For this purpose, the result can be presented in the format given below in Table 12 for better understanding.

Table 12: Segregating and classifying impacts

| | Impacts | | | | | | |
|----------------------------|-------------------------------------|------------------------|--------|-----|---------------------------|-------------------------------------|----------------------|
| | IMPACT (Positive OR negative) | Significance of Impact | | | Probability of Occurring | | |
| | | High | Medium | Low | Highly Likely to Occur | Low probability of Occurrence | Unlikely to Occur |
| Seven constraints impacted | | | | | | | |
| Indicator 1 | | | | | | | |
| Indicator 2 | | | | | | | |
| ---- | | | | | | | |

Source: KPMG analysis

3. Consultation

Consultation is a key part of the Impact Assessment process, and is a critical requirement for understanding the sustainability dimensions of social safety and environment protection. Consultation with key stakeholders would help in understanding other factor and validating the outcome of the IA Framework. The consultation provides a good understanding of the factors responsible for success and failures of schemes, while also helping identify additional factors. A judicious and inclusive selection of stakeholders for consultation also helps in identifying the indirect or unintended outcomes of the schemes.

4.3.3. **Decision making and Reporting**

After completion of the impact assessment, the next stage is acting on the outcome of the IA process. The decision makers need be equipped with tools that can simplify the decision making process for them. The recommendations for improving the sustainability performance of the scheme should be based on two key factors mentioned in Table 12: **a) significance of particular impact and b) probability of occurrence of impact.**

This mapping helps the decision maker in structuring their action around the outcome of the IA exercise. For this purpose, each of the impacts may be classified as suggested in

Table 13 will have an accompanying recommendation and corresponding action point/s, with an aim to minimise the negative impact and maximise the positive impacts.

Table 13: Action Matrix

| Positive Impacts | Recommendations to maximise positive impacts (Include an overview of the intended outcome) | Action points |
|--------------------|---|---------------|
| 1. Indicator | | |
| 2. Indicator | | |
| Negative Impacts | Recommendations to minimise negative impacts (Include an overview of the intended outcome) | |
| 1. Indicator | | |
| 2. Indicator | | |

For reporting, the result(s) of the IA Framework will also be **reported in the RFD for DC-MSME**. One of the ways of doing this could be to assign **similar ratings for indicators** and rate as suggested in the RFD. However, this poses a calculation problem because of scheme's success definition in the RFD - the issue is assuming that 'change in indicators' are proportional to overall change defined for the scheme, while they may have varying impacts depending on the scheme design. This issue can be addressed by **assigning differential weights to the indicators while integrating them with the RFD framework**. Moreover, RFD does not have scope for inclusion of the indicators under the seventh theme ("sustainability"), which may be presented as additional information.

Table 14: Matrix for overall assessment of schemes

| Column 1 | Column 2 | Column 3 | Column 4 | | Column 5 | Column 6 (Target/ Criteria) | | | | |
|---|-------------------------|-----------------------------|-----------------------|------|---|--------------------------------|-----------|------|------|------|
| Scheme Objectives | Weight to the objective | Activities under objectives | Measurable Indicators | Unit | Assigned Weight to the action under objective | Excellent | Very Good | Good | Poor | Fair |
| Objective1 | | Action 1 | | | | | | | | |
| | | Action 2 | | | | | | | | |
| | | Action 3 | | | | | | | | |
| Objective2 | | | | | | | | | | |
| Additional Sustainability Indicators not acknowledged in the scheme objectives* | | | | | | | | | | |

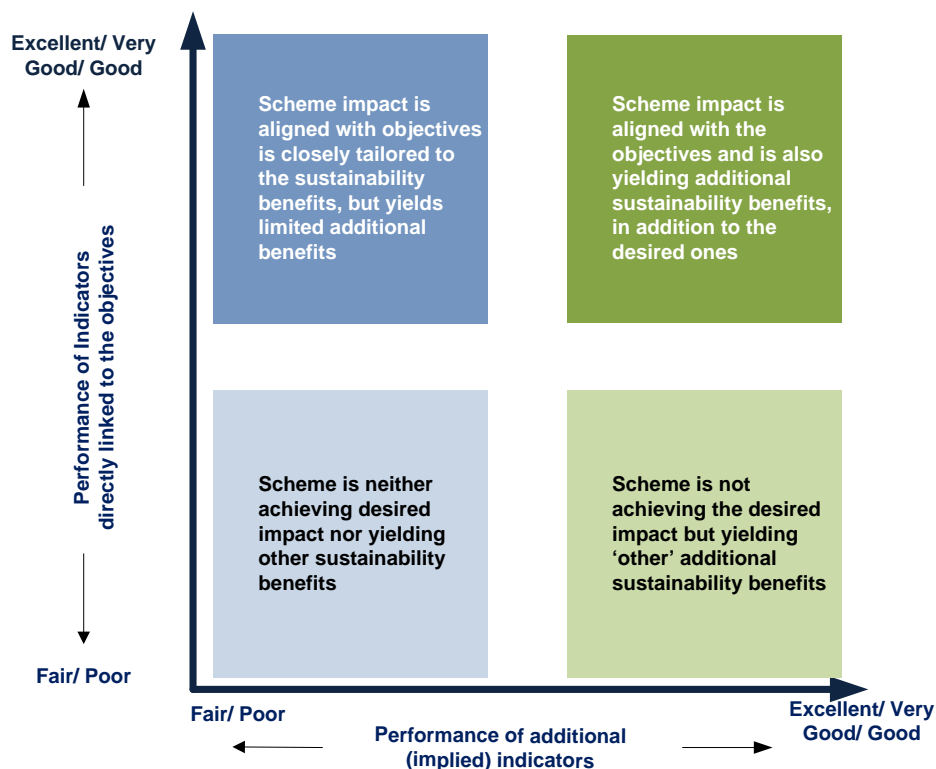
**(These indicators may not be required for RFD, and hence may not be included in the reporting of the same)*

The Table 14 above shows the scheme's overall performance reflected by the two types of indicators - indicators directly linked with the objective and additional sustainability indicators not acknowledged in the objectives but implied. An additional qualitative analysis of scheme may be proposed on two parameters:

- Scheme's performance w.r.t. the stated objectives of the scheme as
- Scheme's performance w.r.t. the sustainability indicators of the scheme

An analysis on these two parameters shows the sustainability benefits beyond the stated sustainability objectives of the scheme. All these schemes can subsequently be plotted as per the matrix suggested in [Figure 6](#).

Figure 6: Categorising schemes as per the indicators



The RFD scores and ratings provide an additional tool for validating the recommendation(s) and action point(s) derived from the Impact Assessment Framework and presented in [Table 13](#).

This may form the basis of suggesting possible action points in scheme design and/or implementation modalities, so that the 'Sustainability' performance of the schemes is enhanced.

4.4. Enabling the environment for Impact Assessment: improving sustainability through a structured 'policy planning' approach

Primary research (based on our stakeholder interactions) suggests that the financial targets and scheme outreach are the primary assessment criteria for defining the success for most of the DC-MSME schemes.

However, adequate emphasis is not laid on defining the methodology adopted to define such targets and the mechanism deployed to achieve these targets. Often schemes are designed without proper need assessment and stakeholder consultations (i.e. are not bottom-up). The schemes are mostly evaluated on economic parameters, whereas the social, environmental and governance aspects are not considered to be of primary importance, while assessing the impacts. Thus, there is a need for better policy planning

and also for an overall framework that considers sustainability aspects of the MSMEs holistically and throughout the life cycle.

The scheme life cycle can be understood to have five main stages, which are mentioned below:

Figure 7: Steps in Scheme formulation



Stage 1 – Need Assessment

- Define the target group(s) for the scheme
- Interact with stakeholders and potential scheme beneficiaries to validate the technical / financial needs, with respect to sustainability
- Conduct supporting research to validate that quantum of assistance is adequate for scope of the scheme
- Consult experts in the relevant area to validate findings of the 'need assessment'

Stage 2 – Design the Schemes keeping the Sustainability aspects in mind

- Draft major components of the scheme
- Define clear eligibility criteria for scheme beneficiaries
- Define the quantum of assistance and ticket size appropriately
- Map the scheme using the sustainability design framework (refer Chapter 4)
- Define the monitoring and implementing agencies for the scheme

Stage 3 – Implementation & Monitoring

- Train the implementing agency OR use specialised intermediary agencies to implement the scheme
- Incorporate Management Information System (MIS) or Decision Support System (DSS) for data collection and monitoring
- Define the mechanism for feedback and monitoring of scheme performance

Stage 4 – Evaluation and Impact Assessment

- Interact with stakeholders and analyse feedback from scheme beneficiaries
- Conduct a sustainability Impact Assessment, using the data collected from the MIS and DSS

Stage 5 – Review: recommendations and modifications

- Make recommendations (and modifications to the scheme design) to make it more effective in the next stage

The above steps outlined for each of the stages need to be adhered to, benchmarked and data collected, to enable systematic data collection, inference and reporting; thus providing for a structured and incremental impact assessment framework.

Annexures

1. Analysis of International MSME schemes for sustainable S-E-E behaviour
2. Detailed “As-Is” analysis of NMCP and non-NMCP schemes (attached spreadsheet) with sustainability referencing, S-Scoring and S-graphs
3. Sample “To-Be” analysis for 1 selected scheme (attached spreadsheet)
4. Indicators Matrix for the IA framework

A.1. Analysis of international MSME schemes for sustainable S-E-E behaviour

A.1.1 Inclusion of Social Aspects in Scheme Design

1. Training and Skill development

In **Mexico**, **COMPITE** (National Committee for Productivity and Technological Innovation) works directly with both the Ministry of Economy and the business sector through chambers and enterprise associations and has now been constituted as a civil association. It provides a wide variety of services including workshops for management quality certification, training, corporate social responsibility and other types of consulting.

Similarly, there is another organization - **CRECE** whose main services are financial advisory, consulting for strategy and innovation, and general training.

Trainings envisaged under current MSME schemes is not of sufficient scale based on stakeholder interactions and are often difficult to monitor. There is merit in having a national committee like COMPITE and CRECE, comprising of NGOs, Subject Matter Experts and consultants, which will help implement and oversee skill upgradation and training of manpower in SMEs across all schemes.

2. Social Equity

In **Germany**, The Economics Ministry focuses more on groups which are at present underrepresented in terms of start-ups and will offer specific assistance. To encourage more start-ups by women, the **government provides advisory and support services in co-operation with the “bundesweiten gründerinnenagentur”** (nation-wide female entrepreneurs agency). A research has also been commissioned into start-ups by migrants to understand how this group of people can be given more effective support.

In the Indian context, similar additional incentives can be provided to encourage women entrepreneurs, under the DC MSME scheme on Entrepreneurial and Managerial Development through Incubators

A.1.2 Inclusion of Environmental Aspects in Scheme Design

The current ‘environmental’ focus of DC-MSME schemes is primarily on energy efficiency technologies, as covered under the TEQUP and other similar schemes. However, incentives for various other technologies and practices that mitigate environmental risks have not been adequately covered in the schemes. Some of the areas that need more focus include the following:

1. Material Efficiency/Reduction

German Agency for Material Efficiency, DEMEA has piloted a voucher scheme within the framework of the **REMake project**. The Government intends to use these innovation vouchers to promote an efficient use of raw materials, and expects SMEs to use these to obtain expert low cost advice on innovation relating to the use of raw materials at a low cost. In **UK**, through REMake vouchers, businesses have the option to select a technical consultant with the relevant expertise who can help identify potential cost savings, source and trial recycled materials and reduce packaging.

Raw material scarcity is a critical problem for many industries in India such as paper, rubber, leather, etc. Such industries can be encouraged to conserve raw material and

reduce wastage by way of vouchers against which units can seek advice on material conservation.

*This can be integrated with the **Lean Manufacturing** scheme which, to some extent, looks at better utilisation of materials through LM techniques.*

2. Energy Efficiency

The **Design for Efficiency Scheme (DfE)** in **Singapore** aims to encourage new facilities that are large consumers of energy to integrate energy and resource efficiency improvements into their development plans early in the design stage. Funding is provided up to 80% of the qualifying costs or \$600,000, whichever is lower.

*The **CDP scheme** can provide for such a component under infrastructure development, to encourage upcoming industrial estates to introduce energy & resource efficiency improvements, into their development plans during the design stage.*

3. Emissions, Effluents and Waste Reduction

In **Singapore**, the **3R Fund** by the National Environmental Agency (NEA) is a co-funding scheme to encourage organisations to implement waste minimisation and recycling projects. Funding is provided up to 80% of the qualifying costs and subject to a cap of \$1 million per project, and depends on the quantity and type of waste reduced or recycled.

Singapore also provides for a 1-year accelerated depreciation allowance for highly efficient Pollution Control equipment encourages the use of highly efficient air and water pollution control equipment. The qualifying capital expenditure on the equipment can be written off completely against the taxable income of the company in the year following the year of purchase.

*Schemes like **CDP** should provide funding for infrastructural projects on waste management. Incentives for using pollution reduction and waste management technologies, and for R&D on such technologies could also be integrated with other schemes such as the **TEQUP** scheme.*

4. Green Building

In **Germany**, financial support is provided to **SMEs to improve the energy performance of buildings**. The **Building Retrofit Energy Efficiency Financing (BREEF) Scheme** is a financing programme to provide credit facilities for commercial building owners and energy services companies to carry out energy efficiency retrofits of existing commercial buildings, which will lead to the building achieving minimum Green Mark certified standard.

*Similarly, incentives and financing for energy efficient buildings can be provided within the Infrastructure development component of the **Cluster Development Programme**. Currently no provision is made for green buildings in the DC MSME schemes.*

5. Water Conservation

Singapore has a **Water Efficiency Fund (WEF)** that encourages companies to be more efficient in managing their water demand or promote water conservation in the community. Support is available for feasibility studies, water audits, community campaigns and programmes, water recycling efforts and use of alternative source of water.

*Such a fund can be created as part of the **TEQUP** scheme or within **CDP** Scheme to promote water conservation technologies, initiatives, and infrastructure.*

6. Green Technology

In **Malaysia**, **Green Technology Financing Scheme (GTFS)** was the first soft loan given to companies towards supporting Green Technology(s). It is the first kind of **green financing to be used for encouraging green initiatives that satisfy the following criteria:**

- Minimising degradation of environment
- Zero or low Green House Gas emission
- Safe for use and promotes healthy and improved environment for inhabitants
- Conserving the use of energy and encouraging optimal use natural resources
- Promoting the use of renewable energy resources

*There is potential to extend the current **CLCSS** scheme to include financial assistance for various eco friendly technologies in the energy sector, water and waste management sector, building and township sector and transport sector. There is also scope to include interest rate subsidy for eco-friendly technologies in the CLCSS scheme.*

*Furthermore, the **CGFS** scheme can be extended to provide an additional guarantee cover for environment friendly projects.*

A.4. Data requirement & sources for IA Framework

| Indicators | Type of data required to measure the indicators | Source(s) of Data |
|--|--|--|
| 1. Quantum of debt utilised by MSMEs | Secondary Data: Scheme wise support given to MSMEs by the Primary Lending Institutions (PLIs) | <ul style="list-style-type: none"> Listed PLIs/ Nodal Agency such as CGTMSE / SIDBI or <i>as mentioned in the scheme document</i> |
| 2. Quantum of equity and alternative finance used by MSMEs | Secondary Data: Scheme wise consolidated data on ' <i>non-debt type finance</i> ' from various financial channels | <ul style="list-style-type: none"> Listed institutions / Nodal Agency such as SIDBI / SIDBI VC etc or <i>as mentioned in the scheme documents</i> |
| 3. Cost of debt finance | Secondary Data: Project specific (for rate of interest) consolidated data from various financial channels | <ul style="list-style-type: none"> Listed PLIs / Nodal Agency such as CGTMSE / SIDBI or <i>as mentioned in the scheme documents</i> |
| 4. Application processing time | Primary Data: Total time taken from filing an application to approval / rejection stage | <ul style="list-style-type: none"> Individual firms Listed Primary Lending Institutions / Nodal Agency such as CGTMSE / SIDBI |
| 5. Size of loan accessed in different categories | Primary & Secondary Data: Project specific data on size of loan and margin money or % of finance given to the project | <ul style="list-style-type: none"> Listed PLIs/ Nodal Agency such as CGTMSE/ SIDBI or <i>as mentioned in the scheme documents</i> |
| 6. Success rate of loan application (sector / region / size / cluster) | Primary & Secondary Data: Ratio of applications filed v/s approved for finance | <ul style="list-style-type: none"> Individual firms & Listed Primary Lending Institutions / Nodal Agency such as CGTMSE / SIDBI |
| 7. Type / size / sectors / region / applicant types | Primary Data: Details of loan applicant in terms of firm size / turnover to be obtained sectors / regions / institutions | <ul style="list-style-type: none"> Individual firms Listed Primary Lending Institutions / Nodal Agency such as CGTMSE / SIDBI |
| 8. Total number of firms accessing finance (category wise) | Primary & Secondary Data: Details of projects approved for finance with details of firm size / turnover to be obtained sectors / regions/ institutions | <ul style="list-style-type: none"> Individual firms Listed Primary Lending Institutions / Nodal Agency such as CGTMSE / SIDBI |
| 9. Technology used by MSME | Secondary Data: Details of technology requested / installed under the scheme support | <ul style="list-style-type: none"> Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme |
| 10. Production cost | Primary Data: 'Before and After technology installation' - cost data from users of specific | <ul style="list-style-type: none"> Firms (user of particular technology for which impact is to be measured) |

| | | |
|--|---|---|
| | technologies | |
| 11. Labour productivity | Primary Data: <i>'Before and After technology installation' - labour cost data</i> from users of specific technologies | <ul style="list-style-type: none"> Firms (user of particular technology for which impact is to be measured) |
| 12. Optimization in material use and reduction in waste | Primary Data: <i>'Before and After technology installation' - raw material and other material cost data</i> from users of specific technologies | <ul style="list-style-type: none"> Firms (user of particular technology for which impact is to be measured) |
| 13. Energy Efficiency improvement | Primary & Secondary Data: Details of energy efficient technology requested/ installed under the scheme support | <ul style="list-style-type: none"> Scheme Application forms Firms (users of particular technology) |
| 14. Adoption of Clean energy & Renewable Energy Based Technology | Primary & Secondary Data: Details of energy efficient technology requested / installed under the scheme support | <ul style="list-style-type: none"> Scheme Application forms Firms (users of particular technology) |
| 15. Adoption of Information and Communication Technology | Secondary Data: Details of ICT technology requested/ installed under the scheme support | <ul style="list-style-type: none"> Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme |
| 16. Cluster / State / National level B2B portals for national / international markets | Primary & Secondary Data: Details of new marketing portals established and used by the MSMEs | <ul style="list-style-type: none"> Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme Cluster and Firms |
| 17. Cluster level organisation as focal point for all marketing activities | Primary & Secondary Data: Details of activities of Business Membership Organisation (BMOs) / Marketing groups used by the MSMEs | <ul style="list-style-type: none"> BMO registration Cluster and firms |
| 18. Marketing infrastructure: <i>testing facilities, display-cum-exhibition centre etc</i> | Primary & Secondary Data: Details of marketing infrastructure developed by MSMEs / Clusters | <ul style="list-style-type: none"> BMOs / SPVs Cluster and Firms |
| 19. Backward supply chain linkages | Primary & Secondary Data: Details of initiatives taken by MSMEs for strengthening/ developing backward supply chain | <ul style="list-style-type: none"> BMOs / SPVs Cluster and Firms |
| Infrastructure | | |
| 20. Upgradation of existing industrial infrastructure | Secondary Data: Number and type of infrastructure development taken up under the scheme | <ul style="list-style-type: none"> Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme BMOs / SPVs / Cluster |

| | | |
|---|---|---|
| 21. Sustainable Infrastructure | Primary & Secondary Data: Details of different infrastructure development taken up under the scheme | <ul style="list-style-type: none"> • Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme • BMOs / SPVs / Cluster |
| 22. Operation & Maintenance of infrastructure | Primary Data: Details operation and maintenance model of infrastructure development taken up under the scheme | <ul style="list-style-type: none"> • Scheme Application from DI offices / DC-MSME office/ Designated Nodal Agency for the scheme • BMOs/ SPVs/ Cluster |
| 23. Modular Estates for Start Ups | Secondary Data: Number and type of modular estates development taken up under the scheme- Cluster/ region/ sector wise | <ul style="list-style-type: none"> • Scheme Application from DI offices / DC-MSME office/ Designated Nodal Agency for the scheme • BMOs/ SPVs/ Cluster |
| 24. Upgradation of / new Quality Testing laboratory | Secondary Data: Number and type of testing laboratory development/ upgraded under the scheme- Cluster/ region/ sector wise | <ul style="list-style-type: none"> • Scheme Application from DI offices / DC-MSME office/ Designated Nodal Agency for the scheme • BMOs/ SPVs/ Cluster |
| 25. Tool Rooms | Secondary Data: Number and type tool rooms development taken up under the scheme- Cluster / region / sector wise | <ul style="list-style-type: none"> • Scheme Application from DI offices / DC-MSME office / Designated Nodal Agency for the scheme • BMOs / SPVs / Cluster |
| 26. Training Capacity | Secondary Data: Consolidated data on the training capacity developed / number of people trained under the scheme | <ul style="list-style-type: none"> • Nodal Agency of the scheme/ • Training agencies |
| 27. Spread of the training (outreach) | Secondary Data: Number and type of trainings provided under the scheme- Cluster / region / sector wise / social-category wise / gender | <ul style="list-style-type: none"> • Scheme details from DI offices / DC-MSME office / Designated Nodal Agency for the scheme • Training agencies |
| 28. Self-employment | Primary Data: Final placement data / post training status data about 'trained people' starting their own business as provided under the scheme - cluster / region / sector wise/ social category wise | <ul style="list-style-type: none"> • Scheme details from DI offices / DC-MSME office/ Designated Nodal Agency for the scheme • Training agencies |
| 29. Certified Trainers | Secondary Data: Number and certified trainers under the scheme - Cluster / region / sector wise / social category wise | <ul style="list-style-type: none"> • Scheme details from DI offices / DC-MSME office/ Designated Nodal Agency for the scheme • Training agencies |
| 30. Standardisation of training curricula | Primary & Secondary Data: Secondary data of the training curricula used by the training agencies | <ul style="list-style-type: none"> • Scheme approved training agencies |

| | | |
|---|---|--|
| 31. Specialised training programmes / institutes | Secondary Data: Secondary Data of specialised training institutes set up under the scheme | <ul style="list-style-type: none"> Designated Nodal Agencies |
| 32. Regularisation of Environmental Laws | Secondary Data: Review of Environmental Laws | Ministry of Environment and Forests |
| 33. Regularisation of Labour laws | Secondary Data: Amendment in the Labour Laws | Ministry of Labour and Employment |
| 34. Strengthening DIC & better ties with DC | Secondary Data: Status report on Reforms within MoMSME and state departments | MoMSME & State Industries' Department |
| 35. E-Filing of EM-I & II | EM-II application process | DI- DIC |
| 36. Firm's income and Profitability | Primary Data: Historical Financial statement (of 2 -3 years) of the sampled firms / cluster | <ul style="list-style-type: none"> Firms (user of particular technology for which impact is to be measured) |
| 37. Jobs Created | Secondary Data: Consolidated data from firms/ cluster on the new jobs created - sector/ region/ cluster wise | <ul style="list-style-type: none"> Firms / Cluster |
| 38. Land Use Management | Primary Data: Land use pattern for the proposed/ developed infrastructure | <ul style="list-style-type: none"> Cluster / SPVs |
| 39. Reduction in waste through recycling, re-use and innovation in disposal techniques) | Primary Data: Waste management plan/ effluent treatment / Solid Waste Management for the proposed / developed infrastructure / cluster and firms; incidence of recycling, reuse etc | <ul style="list-style-type: none"> Cluster / SPVs Firms |
| 40. Reduction in use and generation of hazardous materials | Primary Data: Hazardous material management plan for the proposed / developed infrastructure / cluster and firms | <ul style="list-style-type: none"> Cluster / SPVs Firms |
| 41. Optimization of process water use | Primary Data: Water use pattern for the proposed / developed infrastructure | <ul style="list-style-type: none"> Cluster / SPVs Firms |
| 42. Reduction Green House Gas/ Carbon Emission from operations | Primary Data: Wastewater Management Plan for the proposed / developed infrastructure / cluster and firms; incidence of recycling, re-use etc | <ul style="list-style-type: none"> Cluster / SPVs Firms |
| 43. Water withdrawal from local water sources | Primary Data: | <ul style="list-style-type: none"> Cluster / SPVs |

| | | |
|---|--|---|
| | Water withdrawal plan for the proposed / developed infrastructure / cluster and firms | <ul style="list-style-type: none"> • Firms |
| 44. Conformance to Environmental regulations (Air quality, water use and discharge, noise, hazardous waste, sector specific requirements) | Primary Data: Air emission level of the developed infrastructure/ cluster and firms | <ul style="list-style-type: none"> • Cluster / SPVs • Firms |
| 45. Reduction in Green House Gas/ Carbon Emission from baseline based on energy use patterns and emission of greenhouse gases | Primary Data: Energy use patterns (use of fuels and other indirect forms of energy such as electricity and heat) and fugitive green house gas emissions from the developed infrastructure/ cluster and firms | <ul style="list-style-type: none"> • Cluster / SPVs • Firms |
| 46. Reduction in 'Lost time' hours and rate | Primary Data: Measure taken for ensuring workers health and safety and workplace safety | <ul style="list-style-type: none"> • Cluster / SPVs • Firms |
| 47. Existence and functioning of 'works committee' and 'Grievance redressal committee' for workers | Primary Data: Composition and minutes of meeting of interaction, negotiation and action plans of these two committees, | <ul style="list-style-type: none"> • Cluster / SPVs • Firms |
| 48. Offsite emergency preparedness plans for large clusters | Primary Data: Emergency preparedness plans documents, evidence of drills- individually as well in conjunction with local bodies such as fire department. | <ul style="list-style-type: none"> • Cluster / SPVs |
| 49. Community welfare- investments towards community welfare | Primary Data: Total fund given for community welfare to the local bodies/ NGOs and CSR and their impact evaluation. | <ul style="list-style-type: none"> • Cluster / SPVs |

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Contact us

Sudhir Singh Dungarpur

Partner, KPMG

T: +91 98111 01234

E: sdungarpur@kpmg.com

Yasir Ahmad

Technical Director, KPMG

T: +91 987164 7179

E: yahmad@kpmg.com

Biplav Chatterjee

Manager, KPMG

T: +91 99 584 99802

E: bchatterjee@kpmg.com

Anshul Dubey

Manager, KPMG

T: +91 97 115 28003

E: anshuldubey@kpmg.com

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Project Report **on** **Setting up of** **NATIONAL CENTRE** *for* **QUALITY TESTING (NCQT)**



March 2012

Submitted by

**Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH**

MSME Umbrella Program

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Chapter I

Introduction: Quality Testing Laboratory Infrastructure in India

In the globalized marketplace following the creation of the World Trade Organization, a key challenge facing developing countries is a lack of national capacity to overcome technical barriers to trade and to comply with the requirements of agreements on sanitary and phytosanitary conditions, which are now basic prerequisites for market access embedded in the global trading system. The World Trade Organization has adopted two important agreements in these areas: the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures (both available at <http://www.wto.org>). With a view to meeting this challenge, developing countries need significant technical assistance to develop institutional infrastructure related to standards, metrology, testing and quality in order to be an able partner in the global trade regime^a.

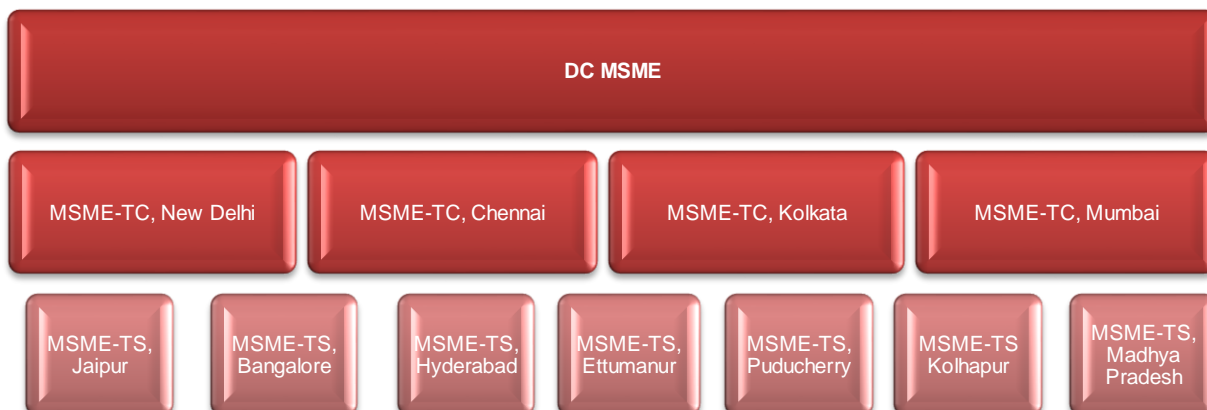
In order to provide testing support to Micro, Small and Medium Enterprises (MSMEs) the Government of India has initiated several modernization programs under the aegis of Ministry of Micro, Small and Medium Enterprises. As a result on the recommendation of the Estimates Committee of Parliament, the Government of India decided to set up four Regional Testing Centers (now MSME-TC), one each in Northern, Southern, Eastern and Western Regions of the country located at **New Delhi, Chennai, Kolkata and Mumbai respectively**. These Testing Centers were established in the early seventies, initially to cater to the testing need of the small scale industries for building quality into their product for obtaining BIS license/ISI marking on their finished products, in the respective regions.

In addition to the MSME TCs at above 4 locations, Government of India have also started **7 MSME Testing Stations (MSME TSs)** for specific industries at the areas of the cluster of the industries.

The main objectives of MSME TCs/TSs are:

- To provide testing facilities to small scale units in order to produce goods conforming to Indian & International standards and specifications.
- To provide Third Party Assurance to Bureau of Indian Standards, Export Inspection Council, DGS & D and other Government Purchasing Agencies like CPWD, Department Of Telecommunication, BMC, Railways, S.A.I.L., Canteen Stores Department., Superintending Engineer (QC) of Maharashtra, Directorate Of Industries, Gujarat, Directorate Of Industries, Goa, Administration of Daman, Diu, Directorate Of Industries Daman & DIC, Daman, Directorate Of Industries (Electricity Department) Silvassa etc.
- To help in improving quality of products of small scale units for participation in the government store purchase program, defence establishments, railways etc.
- To assist small scale units by testing their raw materials, finished products and calibration of their instruments and gauges, etc., – calibration services for up-gradation of quality and reliability (performance testing, type testing & acceptance testing).
- Assurance to Inspection Agency as a third party guarantor.

Organization Structure for MSME Testing Laboratories



MSME-TC, New Delhi

This centre is located at Shaheed Capt. Gaur Marg, Okhla, New Delhi-110 020 under the Ministry of MSME, Government Of India. The Centre provides Testing & Calibration services to MSMEs including large scale industries and public sector units in central, as well as state government. It has four sectional laboratories under its auspices namely Electrical, Mechanical, Chemical and Metallurgical. This Centre caters to the need of Testing & Calibration requirements of the customers from the whole Northern Region covering the state of Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab, Uttar Pradesh, Uttaranchal, Rajasthan, Delhi and Union Territory of Chandigarh.

The testing centre is **recognized by Bureau of Indian Standard (BIS)** as a third party laboratory and test/calibration services in selected areas are **accredited with National Accreditation Board of Testing and Calibration Laboratories (NABL)** and activities are performed as per requirement of **International Standard ISO/IEC17025:2005**.

In addition to MSME-TC Delhi, GOI has also set up an **MSME-TS, Jaipur** equipped with modern testing lab, testing machine and analytical instruments in mechanical, chemical & civil construction material testing sections.

MSME-TC, Chennai

The MSME-TC at Chennai was established in 1974. The main objectives of MSME TC, Chennai is to help the MSMEs located in the southern part of the country in improving and maintaining the quality standards by providing common testing facilities for the raw materials and the final products and calibration of measuring instruments. MSME-TC, Chennai offers testing and calibration facilities in Chemical, Electrical, Mechanical and Metallurgical disciplines, beside training and consultancy in quality related activities.

Four MSME-TSs at Bangalore, Hyderabad, Ettumanur and Puducherry are also functioning under the technical control of MSME-TC, Chennai.

MSME-TC, Kolkata

The MSME - TC, Kolkata functioning under the Ministry of MSME, Govt. of India has been providing Test and calibration Services to MSMEs as well as Inspection agencies of eastern and north-eastern part of the country since 1974 through its different laboratories namely, Chemical, Electrical, Mechanical and Metallurgy including Non-Destructive Testing.

This Centre is an accredited laboratory NABL adopting the quality system as per International Standard ISO/IEC 17025. The Calibration reports of the Centre are almost globally acceptable by virtue of Mutual Recognition Agreement (MRA) between International Laboratory Accreditation Cooperation (ILAC) & Asia Pacific Laboratory Accreditation Cooperation (APLAC) and NABL.

Apart from Testing and Calibration, the Centre is also conducting long-term and short-term training programs on Testing, Calibration for the entrepreneurs / industry personnel.

MSME-TC, Mumbai

The MSME-TC, Mumbai caters to the testing needs of the whole of the Western Region i.e. the State of Maharashtra, Gujarat, Madhya Pradesh, Chhattisgarh and Goa. The location of the field testing station in Southern India along with the industry groups are as follows:-

1. **MSME-TS, Kolhapur**— Maharashtra Foundry Products & Chemical Analysis of Ferrous and Non-ferrous Metals
 2. **MSME-TS, Bhopal - Madhya Pradesh** - Engineering Product
-

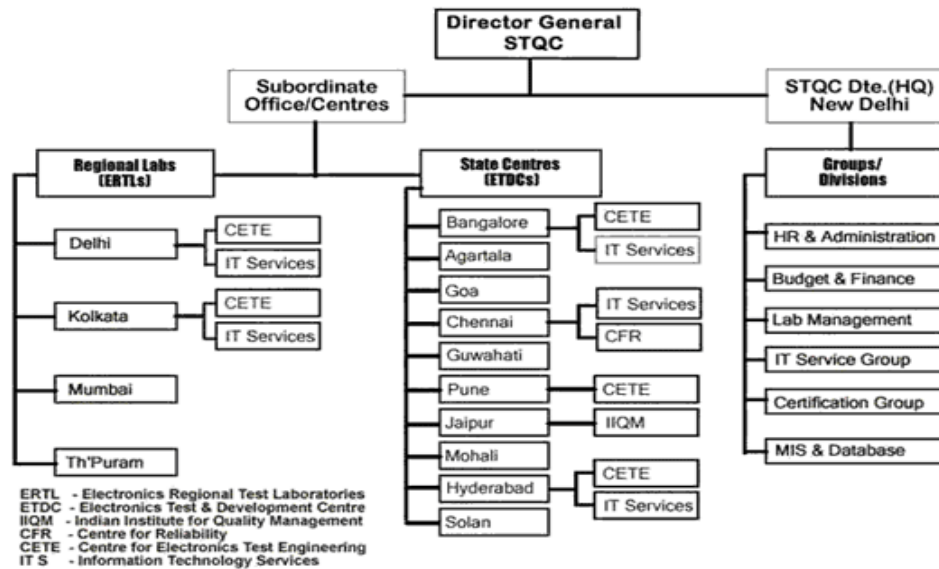
OTHER TESTING FACILITIES

1. Public Sector

a) **National Test House (NTH):** The National Test House under the administrative control of Ministry of Consumer Affairs, Food & Public Distribution, Department of Consumer Affairs, Govt. of India, is a premier Scientific Institution of the country. It was established way back in 1912 under the then Railway Board and since then it has grown into a laboratory of national importance in the field of testing, evaluation & quality-control of various engineering materials and finished products. NTH with its Headquarter at Kolkata, functions through its six laboratories located in Kolkata (at Alipore and Salt Lake), Mumbai, Chennai, Ghaziabad (along with a Sample Collection Centre at New Delhi), Jaipur and Guwahati. The NTH is at present providing Testing and Evaluation facilities in the following main disciplines:

- a. Civil Engineering
- b. Electrical and Electronics Engineering
- c. Mechanical Engineering (Heavy and Light)
- d. Metrology and Calibration, Non-Destructive Testing
- e. Rubber, Plastics and Textiles, Chemical
- f. Fuels, Lubricants and Paints and
- g. Agrochemicals (mainly Fertilizers and Pesticides)

b) **Standardization Testing and Quality Certification (STQC):** Established in year 1980 under Department of Information Technology, STQC started its services in the area of Testing and Calibration based on the need of small and medium sized electronic industry in the country. From a mere Testing, Calibration and Quality Assurance Support to Electronics Hardware Sector, STQC has positioned itself as a prime Assurance Service Provider to both Hardware and Software sectors. STQC operates through a regional network of Electronics Regional Test Laboratories (ERTL) and state network of Electronics Test & Development Centers (ETDC) as detailed below:



Source: Department of Information Technology Website

c) Bureau of Indian Standards (BIS) Laboratories: The network of eight BIS laboratories, spread throughout the country provide conformity testing of BIS certified products against relevant Indian Standards. Central Laboratory at Sahibabad (near Delhi) and the laboratories at Regional and some Branch Offices are engaged in testing primarily for operation of the BIS Certification Marks Scheme. The major areas covered under testing at the Central Laboratory are electrical, mechanical and chemical and under calibration, electrical and mechanical.

d) Quality Marking centers of several State Governments

2. Private Sector

In addition to public infrastructure of testing laboratories, as per Federation of Indian Micro and Small & Medium Enterprises (Annexure I), there were a total of 2767 testing laboratories (both with and without NABL accreditation) across Indian in both private and public sector as in October 2010.

Chapter II

Rationale and objective for setting up the NCQT

Despite a large network of testing labs in the country, and a significant contribution made by MSME TCs/TSs in providing testing infrastructure support to MSMEs, there still exists a gap in service delivery due to following reasons:

- 1. Limited access to latest technology-** Regional business centers with limited resources have limited awareness and access to emerging technologies and international developments of significance.
 - 2. Lack of Monitoring-** The distributed infrastructure has posed a need for a centralized body that can oversee the quality of infrastructure and services provided by various testing facilities and take corrective measures.
 - 3. Lack of collaboration and knowledge sharing platform:** The existing infrastructure provides no institutional platform to share best practices among the existing MSME TCs/TSs and other private units.
 - 4. Limitations of private sector:** Despite a presence of large network of private sector laboratories, most of these units have small scale operations and cater to very specific requirements of MSME sector. Thus, there still exists a gap in terms of providing a holistic set of testing services for MSME sector especially in areas of emerging sectors and technologies.
 - 5. Lack of technical guidance and expertise:** There is a need for establishing nodal agency that can institute technical trainings and provide technical expertise and guidance to other MSME TCs/TSs and private sector units.
 - 6. Lack of need based services:** The service portfolio of current MSME Testing centers is not aligned to the needs of MSMEs and hence the current infrastructure is inadequate to serve the needs of MSMEs.
-

- 7. Limited awareness:** The centralized agency can also act as a one-stop solution point for all MSMEs and act as nodal agency for generating awareness among MSMEs, towards better quality and certified products.

Thus, the setting up a NCQT with following key objectives is proposed:

1. To act as a nodal agency for providing assistance to MSME sector in providing **one-stop solution** for quality certification and testing of products and components
 2. To establish an **international state of the art testing facility for MSMEs** complying with requisite standards in areas of advanced & emerging technologies
 3. To provide an **institutional platform for increasing collaboration and coordination among existing TCs, TSs and other testing bodies** (e.g. Tool rooms) for technology transfer and knowledge sharing
 4. To **periodically review the test/calibration services** for enhancement of existing scope as well as **inclusion of need based new facilities**
 5. To **oversee various testing facilities and provide technical expertise and guidance to other MSME testing centres**
 6. To **promote research and innovation** in the areas of special significance to MSMEs, government agencies and other organizations
 7. To **act as nodal agency for generating awareness** among MSMEs, towards better quality and certified products
 8. To **provide technical expertise and consultancy to MSMEs** in developing human resources and other infrastructure in areas of advanced technology and research
-

Chapter III

Methodology of the Study

This study on setting up of the NCQT has been undertaken basis a mix of primary and secondary research to cover several aspects as detailed below:

- **Study of existing public and private Indian Testing Labs including:**
 - *Public Infrastructure:* MSME Testing Centers
 - *Private Infrastructure:* Shriram Institute for Industrial Research, Inputs from Federation of Indian Micro and Small & Medium Enterprises (FISME)
- **International Institutes:** Study of key technologies and organization structure in similar International institutes including
 - National Quality Assurance, USA
 - BAM-Federal Institute for Materials Research and Testing
 - Korea Testing & Research Institute
 - Sweden National Testing and Research Institute
- **Inputs from eminent experts including:**
 - Mr. B. S. Srivastava, Director, MSME-TC Delhi
 - Dr. R.P. Singhal, Ex- Chief Scientist, Apex Level Standards & Industrial Metrology, NPL
 - Other national and international experts

Even though the study has attempted to cover several aspects related to analyzing the feasibility of the proposed NCQT, it is felt that due to large size and heterogeneous nature of MSME sector and several emerging needs, a further detailed analysis, including extensive field visits and stakeholder interactions to ascertain the actual requirements of MSME sector, consultancy and knowledge requirements of private sector labs and establish the economic feasibility and self-sustainability of the proposed NCQT, would be required as next steps to this study.

Chapter IV

Infrastructure requirement for the NCQT

1. Land requirement

With the above objectives in mind, it is proposed to expand and upgrade the existing infrastructure at MSME- TC, New Delhi for it to function as a NCQT and provide guidance to other TCs and TSs as nodal laboratory under DC-MSME. The reasons for choice of this location are as follows:

- a) Long track record of operations:** The MSME- TC, New Delhi was the first amongst the four such TCs to achieve first accreditation by the NABL in the year 1996-97, followed by other testing centers. It has a successful track-record of operations since its establishment in 1974 in providing quality testing facilities to MSMEs and others.
- b) Quality infrastructure:** The MSME- TC, New Delhi has an already existing quality infrastructure (equipment and manpower) in place for key testing areas i.e. Chemical, Electrical, Mechanical and Metallurgy and Calibration Facilities. Thus, upgrading the existing infrastructure is a more preferable option over setting up a greenfield project.
- c) Availability of land:** MSME TC, New Delhi has sufficient area for expansion and development of new facilities, which is a major constraint with some of the other TCs (e.g. Mumbai). The proposed area for the expansion of facilities is the construction of a floor above the existing premises for electrical & mechanical laboratory at MSME TC, New Delhi. The financial estimates for the same are as presented below:

| | |
|------------------------------|------------------------------------|
| Construction area | 1200 Sq. Meter (approx.) |
| Cost of construction | INR 1.185 Crore(as per CPWD rates) |
| Additional Tax to MCD | INR 25,000 (annual) |

d) Financial Performance: The MSME- TC, New Delhi had achieved more than 130% self sufficiency level in 2007-08 before the implementation of sixth pay commission which led to an increase in expenditure under non-plan head. In 2010-11 MSME- TC, New Delhi has reported higher self sufficiency performance relative to Kolkata and Chennai as evident by the comparative self sufficiency performance of TCs shown below:

Self Sufficiency Performance (In %)

| MSME TCs / Year | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-----------------|---------|---------|---------|---------|---------|
| TC-N.DELHI | 134 | 130 | 92 | 70 | 62 |
| TC-MUMBAI | 83 | 72 | 72 | 95 | 90 |
| TC-KOLKATA | 37 | 44 | 39 | 39 | 39 |
| TC-CHENNAI | 52 | 41 | 36 | 35 | 38 |

2. Equipments and Machinery

As per this study and analysis of the new market needs and trends, certain testing areas have been identified for further up-gradation at MSME-TC, Delhi. The resulting cost estimates for major equipments and supporting facilities have been summarized below:

| Area | Estimated Cost of Equipment |
|---|-----------------------------|
| Equipments and Machinery | INR 553 Lakh |
| <i>*Electrical Testing (Annexure II)</i> | <i>INR 48 Lakh</i> |
| <i>*Mechanical Testing(Annexure IV)</i> | <i>INR 77 Lakh</i> |
| <i>*Chemical Testing (Annexure V)</i> | <i>INR 308 Lakh</i> |
| <i>*Calibration (Annexure III)</i> | <i>INR 120 Lakh</i> |
| Additional Tools and Fixtures for Calibration (Annexure III) | INR 12 Lakh |
| Office Equipment and Furniture | INR 6 Lakh |
| Total | INR 571 Lakh |

**Including Miscellaneous Assets*

The details of new products/materials to be covered and equipments to be added are given below:

a) Testing Facilities

| Test field | Product/ Material | Specification | Major equipments | Cost* (INR Lakh) |
|--|---|--|---|---------------------|
| ELECTRICAL TESTING (Refer Annexure II for details) | Self-ballasted LED - Lamps for general lighting services | IS:16101 : 2012 LED & LED Modules, IS:16101 (Part-1) : 2012 Safety Standard and IS:16101(Part-2) : 2012 Performance Standard. | Complete automatic test plant with computer interface including Integrating Sphere, Standard lamps. | 48.00 |
| MECHANICAL TESTING (Annexure IV) | Fire fighting equipments | Performance testing of Landing Valve IS:5290, Fire hose delivery coupling, Branch pipe, nozzle Hose reel for fire fighting IS:903-1993, IS:884-85, IS: 8090-76 | Flow meter, Test chambers for environment test etc. | 42.00 |
| | Helmet | IS:4151-1993 Performance testing of protective Helmet for Motor Bikes | Retention / Impact/ Distortion/flammability test equipments etc. | 35.00 |
| CHEMICAL TESTING (Annexure V) | Yarn and Textile Products | IS: 2006-1988 & IS: 667-1981 | High Performance thin layer Chromatograph (HPCL) & Inductively coupled plasma spectrometer etc. | 130.00 |
| | Testing of Phthalates in toys, major elements in all metal alloys, pesticide residues, cosmetics, food essential oil etc. | IS:9873-Part-III (EN-71-Pt-III) | Gas Chromatograph-Mass Spectrometer (GC-MS) & Optical Emission spectrometer etc. | 178.00 |
| Total | | | | 433.00 |

* Cost of equipment includes miscellaneous assets

b) Calibration Facilities:

| Calibration Field | Parameters | Standards | Range | Measurement capability | Cost* (INR Lakh) |
|---|------------|--|------------------------------------|------------------------|---------------------|
| Electro-Technical Measurements Source Capability | DC Voltage | Multi Product Calibrator (Fluke or equivalent Make) | 330mV-1000V | 0.004-0.008 | 30.00 |
| | DC Current | -do- | 0.2mA-11A | 0.014-0.05 | |
| | AC Voltage | -do- | <u>10Hz to 10kHz</u> 30mV-1000V | 0.019-0.013 | |
| | AC Current | -do- | <u>1kHz to 5kHz</u> 33μA-11A | 0.3-0.24 | |

| | | | | | |
|--|------------------------|---|---|--|----------------|
| <i>(To calibrate measuring instruments- Annexure III)</i> | | AC/DC voltage current Standard (Yokogawa or Equivalent) | At 50 Hz 11A-50A | 0.072-0.06 | 10.00 |
| | DC Resistance | Standard Resistance Box & High Resistance Decade Box (Tinsley or equivalent make) | 10mΩ-2GΩ | 0.08-0.87 | 12.00 |
| | DC Power | Multi Product Calibrator (Fluke or equivalent Make) | 100W-6000W (At 100V – 600V) | 0.0043-0.009 | Included above |
| | AC Power (50Hz) at UPF | -do- | 100W-6kW (At 100V – 600V) | 0.107-0.01 | - |
| | Capacitance | -do- | 1nF – 1mF | 0.7 – 0.77 | - |
| | Frequency (3V) | -do- | 119Hz-100kHz | 0.0041-0.028 | - |
| Electro-Technical Calibration Measure Capability <i>(To calibrate source instruments – Annexure III)</i> | DC Voltage | Reference Multi Meter 8 & 1/2 Digit, Fluke or equivalent make | 100mV- 1000V | 0.0008-0.007 | 26.00 |
| | DC current | -do- | 100μA – 10A | 0.002 – 0.05 | - |
| | AC Voltage | -do- | 50Hz to 10kHz 100mV – 1000V (at 1kHz only) | 0.02 – 0.016 | - |
| | AC Current | -do- | 300Hz to 10kHz 100μA - 1mA 1mA - 1A 1A -10A | 0.08-0.1 | - |
| | DC Resistance | -do- | 1Ω – 1kΩ 1kΩ – 1MΩ 1MΩ – 1GΩ | 0.003-0.0015 0.0015 0.0015-0.23 | 10.00 |
| | AC Energy | Portable Meter Test Equipment With Phantom loading device ZERA or equivalent make | Single Phase 240V, 0.25A - 5A at UPF to 0.5 PF Lag Three Phase 240V, 0.25A - 5A at UPF to 0.5 PF Lag | 0.36-0.13 0.16-0.19 | 20.00 |
| | AC/DC High Voltage | H.V. Divider Hipotronics , USA or equivalent make. | <u>50Hz AC</u> 1kV – 10kV 10kV-50kV 50kV-100kV 100kV-180kV <u>DC</u> 1kV – 10kV 10kV-50kV 50kV-80kV | 0.20-0.12 0.12-0.30 0.30-0.08 0.08-1.50 0.64 0.64-0.93 0.93-1.00 | 12.00 |
| Total (For Electro-Technical Calibration): | | | | | 120.00 |

* Cost of equipment includes miscellaneous assets

3. Consultancy cell

It is also proposed that the NCQT has a Consultancy Cell which can provide techno-managerial expertise to other TCs/TSS for effective implementation of technical objectives. The key activities of the Consultancy Cell are given below:

- a) Identify the enhancement needs of test/calibration facilities through market survey/demand gap analysis
- b) Assist for effective implementation of national/international accreditation standards and other statutory and regulatory requirements through developing Quality Management System Documents, Internal Auditing etc
- c) Arrange Inter laboratory Comparison Programmes/Proficiency Testing etc.
- d) Identification of training needs relevant to the jobs and imparting technical and managerial training to TCs, TSs and others
- e) In addition to in-house training the Consultancy cell may provide training to people from industries and other laboratories
- f) Evaluate the effectiveness of training and its application by the concerned

In order provide above services, the Consultancy Cell may have the manpower with expertise in following areas:

| Technical expertise (<i>Already existing</i>) | Managerial Expertise (<i>To be added</i>) |
|---|---|
| <ul style="list-style-type: none"> Chemical ,Food & Drug testing Electrical test & Electro-technical calibrations Mechanical Testing and metrology | <ul style="list-style-type: none"> Lead Assessor ISO 9001:2008 Lead assessor/Assessor ISO/IEC 17025:2005 MBA in specialization in marketing- New recruit |

4. Manpower requirement

In view of the above additions in service portfolio, here is an overall additional estimated manpower requirement for the National Centre:

| MANPOWER | Chemical Testing | Electrical Testing | Mechanical Testing | Calibration | Consultancy Cell | Total manpower (A) | Estimated cost per person in INR Lakh p.a. approx. (B) | Total Estimated cost in INR Lakh p.a. approx (C= A*B) |
|----------------|------------------|--------------------|--------------------|-------------|------------------|--------------------|--|---|
| Dy. Director | - | NA | - | 1 | - | 1 | 7 | 7 |
| Asst. Director | - | NA | - | 1 | 1 | 2 | 5 | 10 |
| Investigator | 1 | NA | 1 | 1 | - | 3 | 3.3 | 10 |
| Sk. Worker | 1 | NA | 2 | 1 | - | 4 | 2.5 | 10 |
| LDC/UDC/Driver | 2 | | | | | 2 | 1.5 | 3 |
| Total | | | | | | 12 | - | 40 L p.a. |

The expected timelines (since beginning of operations in 1st year) for the requirement of above manpower are as given below:

| MANPOWER | Chemical Testing | Electrical Testing | Mechanical Testing | Calibration | Consultancy Cell |
|----------------|------------------------------|--------------------|------------------------------|------------------------------|------------------------------|
| Dy. Director | - | NA | - | 1 st year onwards | - |
| Asst. Director | - | NA | - | 2 nd year onwards | 2 nd year onwards |
| Investigator | 3 rd year onwards | NA | 3 rd year onwards | 1 st year onwards | - |
| Sk. Worker | 2 nd year onwards | NA | 2 nd year onwards | 2 nd year onwards | - |
| LDC/UDC/Driver | 3 rd year onwards | | | | |

Chapter V

Financial Analysis of the NCQT

1. Overall financials[^]

All figures are in INR Lakh

| Revenue Streams | 1st Year# (FY2015) | 2nd Year (FY2016) | 3rd Year (FY2017) | 4th Year (FY2018) | 5th Year (FY2019) | 6 th Year (FY2020) | 7 th Year (FY 2021) |
|---------------------------------|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------------------|-----------------------------------|
| Initial Investment# | 571.0 | 3.0 | - | 3.15 | - | 3.3 | - |
| Total Revenue (A) | 64.5 | 102.8 | 122.6 | 142.8 | 155.1 | 162.9 | 171.3 |
| Total Operating Cost (B) | 18.1 | 38.5 | 50.1 | 49.0 | 50.9 | 53.8 | 56.0 |
| Operating Profit (C=A-B) | 46.4 | 64.3 | 72.5 | 93.8 | 104.2 | 109.1 | 115.3 |
| Depreciation & Amortization (D) | 30.1 | 57.7 | 51.6 | 46.3 | 41.6 | 37.4 | 33.7 |
| Net Profit before Tax (E=C-D) | 16.3 | 6.6 | 20.9 | 47.5 | 62.6 | 71.7 | 81.6 |
| Pay Back period* | 6 years 10 months (approx) | | | | | | |

[^] Please note the financial analysis of NCQT is basis past trends and secondary research and hence is for indicative purpose only

Initial investment excludes cost of construction. Also, it is assumed that the machinery is fully installed at the beginning of 1st year and revenue earned is for full year of operations

* Payback Period is estimated as ((Net Profit before Tax + Depreciation & Amortization)/Initial Investment) based on undiscounted cash flows

2. Key revenue side assumptions

All figures are in INR Lakh

| Revenue Streams | 1st Year (FY2015) | 2nd Year (FY2016) | 3rd Year (FY2017) | 4th Year (FY2018) | 5th Year (FY2019) | 6 th Year (FY2020) | 7 th Year (FY2021) |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------------------|----------------------------------|
| Electrical Testing | 6.0 | 7.2 | 9.6 | 14.0 | 16.0 | 16.8 | 17.6 |
| Electro-Technical Calibration | 14.4 | 32.4 | 38.9 | 46.7 | 49.0 | 51.4 | 54.0 |
| Mechanical Testing | 12.0 | 24.0 | 28.8 | 30.2 | 31.8 | 33.3 | 35.0 |
| Chemical Testing | 30.6 | 36.7 | 42.8 | 48.9 | 55.1 | 58.1 | 61.2 |
| Technical consultancy | 1.5 | 2.5 | 2.5 | 3.0 | 3.2 | 3.3 | 3.5 |
| Total | 64.5 | 102.8 | 122.6 | 142.8 | 155.1 | 162.9 | 171.3 |

Break up of revenue estimates:

a) Electrical Testing

| Description | 1 st Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year | 6 th Year | 7 th Year |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| No. of samples per annum | 15 | 18 | 24 | 35 | 40 | 42 | 44 |
| Estimated Revenue (INR Lakh) | 6.0 | 7.2 | 9.6 | 14.0 | 16.0 | 16.8 | 17.6 |

Key Assumptions

- The number of samples expected for testing of LEDs have been assumed basis past trends and industry discussions.
- The estimated revenue is assumed at INR 40,000 per sample.

b) Electro-technical calibration

| Description | 1 st Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year | 6 th Year | 7 th Year |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| No. of samples per annum | 1800 | 3600 | 4320 | 5184 | 5443 | 5715 | 6000 |
| Estimated Revenue (INR Lakh) | 14.4 | 32.4 | 38.9 | 46.7 | 49.0 | 51.4 | 54.0 |

Key Assumptions

- The number of samples have been assumed basis past trends and industry discussions.
- The estimated revenue is assumed at INR 800-1000 per sample.
- On-site calibration of assorted meter e.g Voltmeter/Ammeter/Multi meters/HV Equipments etc. is assumed to start from second year onwards

c) Mechanical Testing

| Description | 1 st Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year | 6 th Year | 7 th Year |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| No. of samples per annum | 120 | 240 | 288 | 302 | 318 | 333 | 350 |
| Helmet | 72 | 144 | 173 | 181 | 191 | 200 | 210 |
| Fire Fighting | 48 | 96 | 115 | 121 | 127 | 133 | 140 |
| Estimated Revenue (INR Lakh) | 12.0 | 24.0 | 28.8 | 30.2 | 31.8 | 33.3 | 35.0 |
| Helmet | 7.2 | 14.4 | 17.3 | 18.1 | 19.1 | 20.0 | 21.0 |
| Fire Fighting | 4.8 | 9.6 | 11.5 | 12.1 | 12.7 | 13.3 | 14.0 |

Key Assumptions

- The number of samples have been assumed basis past trends and industry discussions.
- The estimated revenue is assumed at INR 10,000 per sample for both Helmet and Fire-Fighting testing

d) Chemical Testing

| Description | 1 st Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year | 6 th Year | 7 th Year |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Estimated Revenue (INR Lakh) | 30.6 | 36.7 | 42.8 | 48.9 | 55.1 | 58.1 | 61.2 |
| New Facility For Textile Products | 18.8 | 22.6 | 26.4 | 30.1 | 33.9 | 35.8 | 37.7 |
| Expansion of Existing Facilities | 11.8 | 14.1 | 16.5 | 18.8 | 21.2 | 22.3 | 23.5 |

Key Assumptions

- The detailed break up of revenue from the setting up of new facility for textile products in 7th year of operations is estimated as follows:

| Name of test | Number of samples/day | Estimated testing charges per sample (INR) | Total test charges/day (INR) |
|--------------------|-----------------------|--|------------------------------|
| Fabric composition | 2 | 1000 | 2,000 |
| Banned amines | 1 | 2500 | 2,500 |
| Metal test | 1 | 2500 | 2,500 |
| Denier count | 3 | 200 | 600 |

| | | | |
|--|---|-----|-------------------------|
| Cotton count | 3 | 200 | 600 |
| Stiffness | 1 | 300 | 300 |
| Grammage | 5 | 200 | 1000 |
| Length | 1 | 200 | 200 |
| Twist | 1 | 200 | 200 |
| Water impact | 1 | 500 | 500 |
| Shrinkage | 1 | 500 | 500 |
| Crimp rigidity | 1 | 500 | 500 |
| Bursting strength | 2 | 300 | 600 |
| Pilling test | 1 | 300 | 300 |
| Perspiration | 2 | 300 | 600 |
| Abrasion resistance | 1 | 500 | 500 |
| Wet rubbing | 1 | 300 | 300 |
| Fastness to light | 1 | 500 | 500 |
| Fastness to washing | 1 | 500 | 500 |
| Fastness to color | 1 | 500 | 500 |
| Flammability | 1 | 500 | 500 |
| Estimated revenue per day | | | INR 15,700/- |
| Estimated revenue per year (Assuming 20 days of operation in a month) | | | INR 37,68, 000/- |

- The detailed break up of revenue from expansion of existing facilities in 7th year of operations is estimated as follows:

| Name of test | Number of samples/day | Estimated testing charges per sample (INR) | Total test charges/day (INR) |
|--|-----------------------|--|------------------------------|
| Complete test of toys (Migration of elements & phthalates) | 1 | 500 | 500 |
| All elements in metals & alloys | 22 (elements) | 450 per element | 11,250 |
| Estimated revenue per day | | | INR 11,750 |
| Estimated revenue per year (Assuming 20 days of operation in a month) | | | INR 23,50,000 |

- The revenue in first, second, third, fourth, fifth and sixth year of operations from chemical testing is estimated at 40%, 50%, 60%, 70%, 80% and 90% of revenue achieved in seventh year of operations basis past trends and industry discussions for both new and expansion of existing facility.

3. Key cost side assumptions

All figures are in INR Lakh

| Operating cost | 1st Year (FY2015) | 2nd Year (FY2016) | 3rd Year (FY2017) | 4th Year (FY2018) | 5th Year (FY2019) | 6 th Year (FY2020) | 7 th Year (FY2021) |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------------------|-------------------------------|
| Raw Materials & Consumables | 2.5 | 2.6 | 2.8 | 2.9 | 3.0 | 3.2 | 3.4 |
| Salary and Wages | 10.3 | 30.3 | 40 | 40 | 40 | 44 | 44 |
| Utilities | 3 | 3.2 | 3.3 | 3.5 | 3.6 | 3.8 | 4.0 |
| Other contingent expenses | 2.3 | 2.4 | 4.0 | 2.6 | 4.3 | 2.8 | 4.6 |
| Total | 18.1 | 38.5 | 50.1 | 49.0 | 50.9 | 53.8 | 56.0 |

Break up of cost estimates:**a) Initial Investment***All figures are in INR Lakh*

| Heads | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | 6 th Year | 7 th Year |
|--------------------------------|--------------|------------|----------|-------------|----------|----------------------|----------------------|
| Equipments and Machinery | 553.0 | - | - | - | - | - | - |
| Additional Tools and Fixtures | 12.0 | - | - | - | - | - | - |
| Office Equipment and Furniture | 6.0 | - | - | - | - | - | - |
| Accreditation & Recognition | - | 3.0 | - | 3.15 | - | 3.3 | - |
| Total | 571.0 | 3.0 | - | 3.15 | - | 3.3 | - |

Key assumptions:

- For a complete break up of initial investment on equipments and machinery, please refer Annexures II-IV.
- The machinery is fully installed and operational at the beginning of 1st year
- Replacement of tools and fixtures is assumed at the beginning of 6th year

b) Depreciation & Amortization

| Heads | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | 6 th Year | 7 th Year |
|--|-------------|-------------|-------------|-------------|-------------|----------------------|----------------------|
| Depreciation on Equipment and Machinery | 27.7 | 52.5 | 47.3 | 42.6 | 38.3 | 34.5 | 31.0 |
| Depreciation on Tools & Fixtures | 1.8 | 2.6 | 1.9 | 1.4 | 1.1 | 0.8 | 0.6 |
| Depreciation on Office Equipment & Furniture | 0.6 | 1.1 | 0.9 | 0.7 | 0.6 | 0.4 | 0.4 |
| Amortization of Accreditation & Recognition | - | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 | 1.7 |
| Total | 30.1 | 57.7 | 51.6 | 46.3 | 41.6 | 37.4 | 33.7 |

Key assumptions:

- Written down value method of depreciation has been assumed for above calculations
- For the first year of operations, depreciation of 5% for machinery & equipment, 15% on tools & fixtures and 10% on office equipment & furniture has been assumed
- For the second year of operations onwards, depreciation of 10% for machinery & equipment, 25% on tools & fixtures and 20% on office equipment & furniture has been assumed
- The amortization rate of accreditation and recognition related investment has been assumed at 50% per annum over a period of two years

c) Raw materials & Consumables*All figures are in INR Lakh*

| Heads | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | 6 th Year | 7 th Year |
|------------------------|------------|------------|------------|------------|------------|----------------------|----------------------|
| CRM (Chemical) | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 | 1.9 | 2.0 |
| SRM (Electrical) | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 |
| Misc. Consumable items | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 |
| Total | 2.5 | 2.6 | 2.8 | 2.9 | 3.0 | 3.2 | 3.4 |

Key assumptions:

- The data on raw materials & consumables for 1st year is basis past trends and industry discussions
- The data on raw materials & consumables from 2nd year onwards is assuming 5% inflation in costs on y-o-y basis

*d) Salary and Wages**All figures are in INR Lakh*

| Heads | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | 6 th Year | 7 th Year |
|----------------|-------------|-------------|-------------|-------------|-------------|----------------------|----------------------|
| Dy. Director | 7.0 | 7.0 | 7.0 | 7.0 | 7.7 | 7.7 | 7.7 |
| Asst. Director | - | 10.0 | 10.0 | 10.0 | 11.0 | 11.0 | 11.0 |
| Investigator | 3.3 | 3.3 | 10.0 | 10.0 | 11.0 | 11.0 | 11.0 |
| Sk. Worker | - | 10.0 | 10.0 | 10.0 | 11.0 | 11.0 | 11.0 |
| LDC/UDC/Driver | - | - | 3.0 | 3.0 | 3.3 | 3.3 | 3.3 |
| Total | 10.3 | 30.3 | 40.0 | 40.0 | 44.0 | 44.0 | 44.0 |

Key assumptions:

- The manpower requirement has been detailed out in Chapter III, Section 4
- The cost estimate has been assumed basis past trends and industry discussions
- A 10% increment in salaries is assumed at the beginning of 5th year of operations

*e) Utilities**All figures are in INR Lakh*

| Heads | 1st Year | 2nd Year | 3rd Year | 4th Year | 5th Year | 6 th Year | 7 th Year |
|--------------------|------------|------------|------------|------------|------------|----------------------|----------------------|
| Electrical Charges | 2.0 | 2.1 | 2.2 | 2.3 | 2.4 | 2.6 | 2.7 |
| Dis. Water/Gas | 1.0 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Total | 3.0 | 3.2 | 3.3 | 3.5 | 3.6 | 3.8 | 4.0 |

Key assumptions:

- The data on utilities for 1st year has been assumed basis past trends and industry discussions
- The data on utilities from 2nd year onwards is assuming 5% inflation in costs on y-o-y basis

*f) Other contingent expenses**All figures are in INR Lakh*

| Heads | 1st Year | 2 nd Year | 3 rd Year | 4 th Year | 5 th Year | 6 th Year | 7 th Year |
|--|------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Tax on building | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Media & Publicity | 0.50 | 0.53 | 0.55 | 0.58 | 0.61 | 0.64 | 0.67 |
| Telephone charges | 0.50 | 0.53 | 0.55 | 0.58 | 0.61 | 0.64 | 0.67 |
| Accreditation and Recognition related maintenance expenses | - | - | 1.5 | - | 1.6 | - | 1.7 |
| Stationery & Stores | 1.0 | 1.05 | 1.10 | 1.16 | 1.22 | 1.28 | 1.34 |
| Total | 2.3 | 2.4 | 4.0 | 2.6 | 4.3 | 2.8 | 4.6 |

Key assumptions:

- The data on other contingent expenses for 1st year has been assumed basis past trends and industry discussions
- The data on other contingent expenses from 2nd year onwards is assuming 5% inflation in costs on y-o-y basis (excluding tax on building)

Chapter V

Project Implementation Plan for the NCQT

| Sl. No. | Activities | Year | | | | | |
|---------|--|---------|---------|---------|---------|---------|---------|
| | | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| 1 | Preparation of DPR (Detailed Project Report) | | | | | | |
| 2 | Technical Approval by competent Authority | | | | | | |
| 3 | Project appraisal by the Planning Commission/Approval/sanction of fund etc. | | | | | | |
| 4 | Sanction of fund for the expansion of building/construction of building/Handing over etc. | | | | | | |
| 5 | Study of technical specification of the equipments and instruments and budgetary quotation/Approval & sanction of fund | | | | | | |
| 6 | Identification of suitable Technical Personnel Post/Transfer/Training in relevant field | | | | | | |
| 7 | Procurement of equipment and instruments (installation and commissioning) | | | | | | |
| 8 | Execution of works, start of recognition & Accreditation Process | | | | | | |
| 9 | Achievement of Accreditation and Recognition Certification etc. | | | | | | |

Annexure

Annexure I: Industrial Testing Labs*

| Region/ Type of Test | Biological | Chemical | Electrical | Electronics | Electro-Technical | Energy | Mechanical | Metallurgical | NDT | Radiography | Radiological | Optical | Thermal | Photometry | Metalography | Others |
|------------------------|------------|----------|------------|-------------|-------------------|--------|------------|---------------|-----|-------------|--------------|---------|---------|------------|--------------|--------|
| Madhya Pradesh | 34 | 66 | 8 | | 4 | 1 | 13 | 1 | 1 | | | 2 | 3 | | | |
| Punjab | 9 | 28 | 4 | | 1 | 1 | 11 | 1 | | | | | 1 | | | |
| Himachal Pradesh | 7 | 11 | 2 | | 1 | | 3 | | | | | | 1 | | | |
| Delhi | 28 | 82 | 12 | 3 | 6 | | | | 1 | | | | 3 | | 1 | |
| Haryana | 19 | 63 | 4 | | 6 | | 36 | 1 | 1 | | | 2 | 1 | | | |
| J & K | 8 | 16 | | | | | | | | | | | | | | |
| UP | 30 | 110 | 4 | 2 | 7 | | 14 | 1 | 3 | | 1 | | 4 | | | 1 |
| Uttarakhand | 6 | | 1 | 1 | 1 | | 5 | 1 | | | | | | | | |
| Chandigarh | 3 | 7 | 2 | | | | 2 | | | | | | | | | |
| West Bengal | 77 | 167 | 8 | 1 | 3 | | 40 | 2 | 4 | 1 | 1 | | 2 | | | |
| Bihar | 17 | 25 | 1 | | | | | | | | | | | | | |
| Orissa | 10 | 30 | 1 | | | | 3 | 1 | | | | | 1 | | | |
| Jharkhand | 13 | 33 | 1 | | | | 9 | 1 | | | 1 | | | | | |
| Chattisgarh | 9 | 14 | 1 | | | | | 1 | | | | | | | | |
| Assam | 21 | 45 | | | | | 4 | | | | | | 1 | | | |
| Arunachal Pradesh | | 3 | 1 | | | | | | | | | | | | | |
| Manipur | 4 | 5 | | | | | 1 | | | | | | | | | |
| Meghalaya | 3 | 5 | 1 | | | | | | | | | | | | | |
| Tripura | 4 | 10 | 1 | | | | | | | | | | | | | |
| Sikkim | 1 | 1 | | | | | | | | | | | | | | |
| Nagaland | | 1 | 1 | | | | | | | | | | | | | |
| Mizoram | 1 | | | | | | | | | | | | | | | |
| Guajarat | 47 | 219 | 12 | 2 | 3 | 1 | | 7 | 7 | | 2 | | 3 | | | |
| Goa | 3 | 10 | | | | | | 1 | | | | | | | | |
| Dadra and Nagar Haveli | | 1 | | | | | 1 | | | | | 1 | | | | |
| Maharashtra | | 300 | 30 | 8 | 12 | 1 | 164 | 9 | 19 | 1 | | | 15 | | 1 | 1 |
| Rajasthan | 47 | 104 | 4 | 2 | 2 | | 12 | 2 | | | | | 4 | | | |
| Karnataka | 48 | 122 | 12 | 8 | 2 | 2 | | 5 | 6 | | 1 | | 3 | 1 | | |
| Kerala | 30 | 86 | 5 | 1 | 1 | | 10 | 2 | 2 | | | | 2 | | | |
| Tamil Nadu | 81 | 190 | 16 | 2 | 6 | | 53 | 7 | 3 | 1 | 1 | 1 | 4 | | | |
| Pudicherry | 1 | 4 | | | | | 2 | | | | | | | | | |
| Andaman & Nicobar | 1 | 2 | 1 | | | | | | | | | | | | | |
| Lakshadweep | 1 | 1 | 1 | | | | | | | | | | | | | |
| Andhra Pradesh | 76 | 139 | 7 | 1 | 4 | | 17 | 4 | 4 | | 1 | 1 | 1 | | | 1 |

* The above data is based on the type of tests (some of which may be conducted in a single laboratory)

Source: FISME

Annexure II: Details of Electrical Testing Proposal

| Sl.No. | Type of Information | Description | |
|--------|--|--|---|
| 1. | Testing / Calibration facility (New)/Expansion | New Testing Facility for LED Measurement System | |
| 2. | Specification | <ul style="list-style-type: none">IS:16101:2012-General Lighting –LEDs and LED modules-Terms and DefinitionsIS:16102(P-1):2012-Self-ballasted LED-Lamps for General Lighting Services (P-I) safety requirementsIS: 16102 (P-2):2012-Self-ballasted LED-Lamps for General Lighting Service (P-2) Performance Requirements.IS:16103(P-1):2012-LED Modules for General Lighting- safety requirements | |
| 3. | Details of tests/ calibration | <ul style="list-style-type: none">Total Spectral FluxTotal Radiant FluxTotal Luminous FluxSpectral IntensityLuminous IntensityRadiant IntensitySpectral irradianceIrradianceIlluminance | <ul style="list-style-type: none">Dominant wavelengthSpectral PurityCorrelated color tempPeak WavelengthColor Rendering IndexChromaticity coordinatesCorrelated color temp.Electrical thermalTemporal |
| 4. | Requirement of Building | Size of Covered Area 12 Feet x 20 Feet (240 Sq. Feet) | |
| 5. | Name of Equipments | LED MEASUREMENT SYSTEM with Computer Interface Illumia 600-195 or equivalent consisting of :- <ul style="list-style-type: none">Integrating sphere 195 cm (76”/2 meter)Spectrometer CDS-600Spectrally calibrated lamp.Power Supply for Calibrated Lamp.Auxiliary lamp.Power Supply for Auxiliary lampMtrx-Spec softwareLife Testing RackMiscellaneous Auxiliary equipments | |
| 6. | Total Cost of the equipment* | <ul style="list-style-type: none">INR 40,00,000/- (Cost of equipment)INR 5,00,000/- (CST @ 12.5%) Estimated Total Cost: INR 45,00,000/- | |
| 7. | Imported / Indigenous | Imported | |
| 8. | Requirement of Miss. Assets* | <ul style="list-style-type: none">HP, HCL-Desktop Computer, Core i5, 4GB RAM, 500 GB Hard Disk, 18.5” LED Monitor with HP LaserJet Printer 1012Executive Computer Table with CPU Trolley & Drawer boxSplit Air conditioner with cooling / heating control for maintaining the Environment Condition - 3 nos Estimated Total Cost: INR 3,00,000/- | |
| 9. | Additional Power Requirement | NIL | |
| 10. | Manpower Requirement | <ul style="list-style-type: none">Existing | |

| | | |
|-----|------------------------------|---|
| 11. | Demand Potential | <ul style="list-style-type: none">• Being power efficient and environment friendly LED lighting will replace the GLS, CFL and Fluorescent lamp in future. So, scope of the LED lighting system is very wide and bright.• Testing facilities for testing of LED lighting system is not available in north India. |
| 12. | Any Other Information | <ul style="list-style-type: none">• Based on our analysis, there is no other laboratory in northern India having the said testing facility at present• Room No.21 of Size 20 feet x 25 feet is available with electrical Division, which can convert in to new lab for creating LED Testing facilities. Previously this room was used for testing of GLS lamp etc. |

**Note: The estimated cost of instruments/equipments is based on the information collected from either the secondary research or the authenticated suppliers in certain cases and is for indicative purpose only*

Annexure III: Details of Electro-Technical Calibration Proposal

| Sl.No. | Parameter | Details | |
|--------|--|--|---|
| 1. | Testing / Calibration facility (New)/Expansion | Calibration facility for Static Watt hour meter (Energy meter) and H.V. test equipment | |
| 2. | Details of tests/ calibration | As per details given in Chapter III, Section 2, Sub-Section (b) | |
| 3. | Requirement of Building | Size of Covered Area 15 Feet x 20 Feet (300sq. Feet) | |
| 4. | Name of the Equipment | Main Equipment <ul style="list-style-type: none"> Multi Product calibrator 8.5 Digital Ref. Multimeter with Software 6.5 Digital Ref Multimeter with Software. Decade Resistance Box upto 1000 Gega Ohms Standard Energy meter HV Divider 200KVM 200v | Tools and Fixtures <ul style="list-style-type: none"> Aux Equipment Isolation Transformer UPS Tong Tester 4.5, 3.5 DMM, Panel meters etc. Assorted Meters (Lux Meter, dB, Earth Tester, Gauges etc) for Environment Control |
| 5. | Cost of the equipment* | <ul style="list-style-type: none"> Estimated total cost of main equipment is INR 112.50 Lakh Plus CST as applicable Estimated total cost of tools and fixtures is INR 12 Lakh | |
| 6. | Imported / Indigenous | Imported & Indigenous | |
| 7. | Requirement of Miss. Assets* | <ul style="list-style-type: none"> Furniture for equipments Furnished Van for onsite calibration Split Air conditioner with cooling/heating control for maintaining the environment condition – 3 Estimated Cost: INR 7.5 Lakh | |
| 8. | Additional Power Requirement | <ul style="list-style-type: none"> NIL | |
| 9. | Manpower Requirement | <ul style="list-style-type: none"> <i>Additional Manpower required:</i> Dy Director- 1, Asst. Director- 1, Investigator- 1, Skilled Worker- 1 | |
| 10. | Demand Potential | <ul style="list-style-type: none"> All the Electricity Boards in India require Calibration Certificate/ Testing Certificate from NABL Accredited Laboratory / Govt. Laboratory before tendering or placing the order to the vendors. As per our analysis, only ERTL has the requisite testing / calibration facility in Northern Region which is currently known to be giving 3 months waiting period due to overload. Hence, there seems to be a strong demand potential for the above facility in Northern region | |
| 11. | Any Other Information | <ul style="list-style-type: none"> Based on our analysis, there is only one laboratory in northern India having the said testing facility at present Room No.19 of Size 15 feet x 30 feet (currently available with Electrical Division) can be converted into a new lab for above facilities | |

**Note: The estimated cost of instruments/equipments is based on the information collected from either the secondary research or the authenticated suppliers in certain cases and is for indicative purpose only*

Annexure IV: Details of Mechanical Testing Proposal

| Sr. No. | Information | Description |
|---------|---|---|
| 1. | Testing / Calibration Facility (New)/ Expansion | <ul style="list-style-type: none"> Testing of Protective Helmets for Motorbikes Testing of Fire Fighting Equipments |
| 2. | Details of Test/Calibration | <ul style="list-style-type: none"> Performance Testing of Protective Helmet for Motor bikes as per IS:4151-1993 Performance Testing of <ul style="list-style-type: none"> Landing Valve:- IS:5290 Fire Hose Delivery Coupling, Branch pipe & Nozzle IS:903-1993, Hose Reel & Hose Reel Tubing for Fire Fighting as per IS: 884-85 and IS:8090-76 Fire Extinguisher as per IS:15683-2006 |
| 3. | Requirement of Building | <ul style="list-style-type: none"> <i>Helmet Testing:-</i> Covered Area: 90 sq mtr. <i>Fire Fighting Equipments:-</i> Covered Area: 120 sq. mtr, Open Area: 60 sq mtr. |
| 4. | Name of Equipments | <ul style="list-style-type: none"> <i>Helmet Testing:</i> <ol style="list-style-type: none"> (cl.5)- Head forms -sizes - 620mm sizes -08 Nos. (cl 6.4) Retention system & Chin strap test equipment with pull type load cell (cl.6.6) Visor- Equipment for Impact resistance test, flammability test, Distortion(Spherical & Cylindrical Error)as per IS: 9973-81 (cl.9.1)Impact Absorption Test Equipment setup with 4 nos Conditioning Chambers for heat , Low temp., Ultra violet radiation & moisture radiation conditioning and Ambient conditioning. (cl.9.2)Equipment for Resistance to Penetration test with complete set up. (cl.9.3) Test Equipment for Rigidity Test (cl. 9.4) Test Equipment for Testing of Dynamic of retention System (cl.9.6) Test equipment setup for Testing Audibility Test (cl.9.6) Test equipment for testing of Retention Test of Helmet (cl.9.7) Test setup for testing of opening of Visor) (cl.9.8) Test Setup for Testing Flexibility of Peak Misc-Mass of 50N, Load Cell 50kg. Misc 8 Nos. Small measuring Instruments i.e. Vernier caliper 300 & 600mm Ext. Micrometers etc. Split Air Conditioner (2 ton Cap) for Environment Control. Installation, Commissioning and Training- 5 Nos. <i>Fire Fighting equipments:</i> <ol style="list-style-type: none"> Landing Valve, Fire Hose Delivery Coupling, Branch pipe & Nozzle, Hose Reel & Hose Reel Tubing for Fire Fighting, Fire Extinguisher, Power Hacksaw with |

| | | |
|-----|------------------------------|---|
| | | <p>3HP//3ph Motor starter</p> <p>ii) Test setup for Hyd. Pressure Test & water Tightness Test / Leakage Test With manual Pump .Capacity 160kg/cm2</p> <p>iii) (cl. 7.3) Test equipment set up with flow meter.(6000 LPM flow)), 12HP/3ph pump with motor Suitable for 3" & 4 " pipe flow. Suitable for testing of Flow rate of Landing Valve Type A & B as per IS: 5290.</p> <p>iv) Dimensions, Test Set up for Testing of Impact Strength, Load Test, Leakage Test and range of Flow, Hyd. Pressure\Test of Hose Reel and Hose reel Attachment Hose Reel & Hose Reel Tubing for Fire Fighting as per IS: 884-85 and IS: 8090-76.</p> <p>v) Test setup for testing of construction, performance, anticorrosion test, Burst test Environment Cycle test (30deg.C 100 deg. C) of Fire Extinguisher as per IS: 15683-06.</p> <p>vi) Inspection Gauges BSP/BSPT &Metric system for Fire Fighting Equipments-1set</p> <p>vii) Water circulation and storage for Flow rate & Hyd. Pressure Test of Fire Fighting arrangement.</p> <p>viii) Installation, commissioning & Training.</p> <p>ix) 2 ton capacity Split air Conditioner -5 Nos. for Environment control.</p> |
| 5. | Cost of equipment* | <ul style="list-style-type: none"> • <i>Helmet Testing</i> (Total Cost of Complete set up Including Installation and Commissioning) – Rs.40 Lakh • <i>Fire Fighting Equipments Testing Setup-</i> Rs.33 Lakh <p>Estimated cost – INR 73 Lakh</p> |
| 6. | Imported/ Indigenous | Indigenous |
| 7. | Requirement of Misc. Assets* | <ul style="list-style-type: none"> • Computer Setup- 4 Nos. • Almirah- 6 Nos. • Office Tables & Chairs-8 set. <p>Estimated cost – INR 4 Lakh</p> |
| 8. | Additional Power Requirement | 25 KW |
| 9. | Manpower requirement | <ul style="list-style-type: none"> • <i>Existing</i> • <i>Additional Manpower required-</i> Investigator- 1, Skilled Worker- 1 |
| 10. | Demand Potential | <ul style="list-style-type: none"> • <i>Helmet-</i> Good Demand as there is only one Laboratory around Delhi. There is rapid growth in motorbike Industry in country and number of units are engaged in and around Delhi for manufacturing/ Assembly of Helmets • <i>Fire Fighting Equipment-</i> North India is the major fire - fighting equipment manufacturer in India. Such type of quality product has huge demand in Commercial complexes, Housing societies etc. Units engaged in this sector have regular demand to get test the product from such lab |

**Note: The estimated cost of instruments/equipments is based on the information collected from either the secondary research or the authenticated suppliers in certain cases and is for indicative purpose only*

Annexure V: Details of Chemical Testing Proposal

a) New Facility

| Sl.No. | Parameter | Details | |
|--------|--|--|--|
| 1. | Testing / Calibration facility (New)/Expansion | Textile Products Testing Laboratory | |
| 2. | Details of tests/ calibration | All tests are as per ISI Handbook of textile testing, SP-15-1981: i. Composition of yarn and textile products (is-2006-1988,667-1981) ii. Denier and count of yarn (-) iii. Stiffness test (is-6490-1971) iv. Grammage (is-1964-2001) v. Thickness(is-7702-1975) vi. Length of fibre(is-8387-1997) vii. Twist test(is-832-1985) viii. Water impact(is-391,390-1975) ix. Shrinkage(is-1313,1299-1984) x. Crimp rigidity(is-6124-1971) xi. Bursting strength(is-7016-1973,1966-1975) xii. Pilling test(-) xiii. Crease recovery(is-4681-1968) xiv. Perspiration test(is-13042-1991) xv. Flammability test(is-11871-1986) xvi. Abrasion resistance (is-12673-1989) xvii. Wet rubbing(is-11908-1986) xviii. Tear strength (is-7016-1973) xix. Washing & light fastness(is-13036-1991,762-763-1988,764-765-1979,766-767-1988) xx. Hazardous metals in textile products(is-4655-1968,1039-1989) xxi. Banned amines and penta chloro phenols (registration, evaluation, authorization & restrictions of chemicals (reach) specification) | |
| 3. | Requirement of Building | Room 25 x 60 feet Area (7. 5m x 20 m) - 1 No. | |
| 4. | Name of Equipments | i. Comb sorter ii. Digital yarn tension meter iii. Flammability tester iv. Auto wrap reel v. Twist tester vi. Yarn appearance board winder vii. Digital yarn tension meter viii. Crimp rigidity tester ix. Universal tensile testing machine x. Thickness gauge xi. Densimeter xii. Digital microscope xiii. Sequence cheque | xxi. Color matching cabinet xxii. Washing fastness tester xxiii. Light fastness tester xxiv. Fabric inspection machine xxv. Water bath xxvi. Fabric extensioner xxvii. Tearing strength tester xxviii. abrasion cum pilling tester xxix. Pilling tester xxx. Cutter xxxi. Stiffness tester xxxii. Bursting strength |

| | | | |
|----|------------------------|--|---|
| | | machine xiv. GSM cutter xv. Shrinkage template xvi. Perspirometer xvii. Water repellency tester xviii. Water impact penetration tester xix. Sublimation fastness tester xx. Crock meter | tester xxxiii. Crease recovery tester xxxiv. Hot air oven xxxv. Thermo-hygrometer xxxvi. Weighing balance xxxvii. UV cabinet xxxviii. Muffle furnace xxxix. High Performance Thin Layer xl. Inductively coupled plasma spectroscopy |
| 5. | Cost of the equipment* | Comb sorter | INR 18,000 |
| | | Digital yarn tension meter | INR 1,800 |
| | | Flammability tester | INR 50,000 |
| | | Auto wrap reel | INR 16,000 |
| | | Twist tester | INR 24,000 |
| | | Yarn appearance board winder | INR 12,000 |
| | | Digital yarn tension meter | INR 18,000 |
| | | Crimp rigidity tester | INR 17,000 |
| | | Universal tensile testing machine | INR 85,000 |
| | | Thickness gauge | INR 9,000 |
| | | Densimeter | INR 500 |
| | | Digital microscope | INR 90,000 |
| | | Sequence cheque machine | INR 3,000 |
| | | GSM cutter | INR 8,000 |
| | | Shrinkage template | INR 10,000 |
| | | Perspirometer | INR 10,000 |
| | | Water repellency tester | INR 17,000 |
| | | Water impact penetration tester | INR 17,000 |
| | | Sublimation fastness tester | INR 45,000 |
| | | Crock meter | INR 10,000 |
| | | Color matching cabinet | INR 22,000 |
| | | Washing fastness tester | INR 95,000 |
| | | Light fastness tester | INR 85,000 |
| | | Fabric inspection machine | INR 210,000 |
| | | Water bath | INR 25,000 |
| | | Fabric extensioner | INR 35,000 |
| | | Tearing strength tester | INR 45,000 |
| | | Abrasion cum pilling tester | INR 110,000 |
| | | Pilling tester | INR 50,000 |
| | | Cutter | INR 25,000 |
| | | Stiffness tester | INR 10,000 |
| | | Bursting strength tester | INR 55,000 |
| | | Crease recovery tester | INR 10,000 |
| | | Hot air oven | INR 50,000 |
| | | Thermo-hygrometer | INR 3,000 |
| | | Weighing balance | INR 150,000 |

| | | | |
|-----|-------------------------------------|--|-----------------------|
| | | UV cabinet | INR 15,000 |
| | | Muffle furnace | INR 40,000 |
| | | High Performance Thin Layer Chromatograph | INR 3,500,000 |
| | | Inductively coupled plasma spectrometer | INR 7,000,000 |
| | | Total | INR 11,996,300 |
| 6. | Imported / Indigenous | High performance thin layer Chromatograph (HPLC) and inductively coupled plasma spectrometer are imported and remaining are indigenous | |
| 7. | Requirement of Miss. Assets | <ul style="list-style-type: none"> Centre working table for lab (20x 5 feet) 1 No. Side tables for instrument installation (20x50 feet) 2 No. Granite tables for instrument (HPLC & ICP) - 4x 6 feet 2 No.s Computers with color printer and UPS 2 No. Computer tables 2 No. Air conditioner for building 1 No. 7.5 KVA UPS with 30min backup 1 No. Refrigerator 1 No. Other consumables/non consumables Estimated cost: INR 10,00,000/- | |
| 8. | Additional Power Requirement | <ul style="list-style-type: none"> NA | |
| 9. | Manpower Requirement | <ul style="list-style-type: none"> Existing Additional Manpower required: Investigator- 1, Skilled Worker- 1 | |
| 10. | Demand Potential | <ul style="list-style-type: none"> India is a leading exporter of ready-made garments to the developed as well as developing countries. In particular Delhi has readymade garments clusters in Okhla industrial estate. Although there are a number of laboratories in the field of textile testing but only 5-6 labs are equipped to carry out tests of hazardous metals, banned amines and Penta Chloro Phenols (PCP) in the ready-made garments. Therefore demand for testing in textile may increase significantly. | |
| 11. | Any Other Information | <ul style="list-style-type: none"> National / International training to the officers engaged in textile/ readymade garments testing is required | |

**Note: The estimated cost of instruments/equipments is based on the information collected from either the secondary research or the authenticated suppliers in certain cases and is for indicative purpose only*

b) Facility Expansion

| Sl.No. | Parameter | Details |
|--------|---|--|
| 1. | Testing / Calibration facility (New)/Expansion | <ul style="list-style-type: none"> Upgradation of existing facilities |
| 2. | Details of tests/ calibration | <ul style="list-style-type: none"> Estimation of phthalates in Toy samples. Determination of trace and major elements in ingots and alloy of iron, aluminum, copper, lead, magnesium, tin, zinc etc. |

| | | | |
|-----|------------------------------|--|--------------------------|
| 3. | Requirement of Building | Room 12x15 feet Area (4m x 8m) – 3 No. (Existing) | |
| 4. | Name of Equipments | <ul style="list-style-type: none"> Gas Chromatograph Mass spectrometer with autosampler (GC-MS) Optical Emission Spectrometer Microwave digester Rotary Evaporator Gas cylinders with regulators (Hydrogen, Oxygen, Nitrogen & Helium) Cutter and grinder | |
| 5. | Cost of the equipment* | Gas Chromatograph Mass spectroscopy with autosampler (GC-MS) | INR 80,00,000 |
| | | Optical Emission Spectrometer | INR 76,00,000/- |
| | | Microwave digester | INR 5,00,000/- |
| | | Rotary Evaporator | INR 4,50,000/- |
| | | Gas cylinders with regulators (Hydrogen, Oxygen, Nitrogen & Helium) - 1No. Each | INR 85,000/- |
| | | Cutter and grinder | INR 5,00,000/- |
| | | Total | INR 1,71,35,000/- |
| 6. | Imported / Indigenous | All the instruments can be imported (e.g. Gas chromatography mass spectroscopy with auto sampler, Optical emission spectroscopy, Microwave digester and Rotary Evaporator) | |
| 7. | Requirement of Miss. Assets | <ul style="list-style-type: none"> Granite tables for instrument (GC-MS, Microwave, optical emission) 4x6 feet- 3 Granite table with water and sink arrangement (Rotary Evaporator) - 4x 6 feet - 1 Computers with color printer and UPS- 1 Computer tables- 3 Air conditioner 7.5 KVA UPS with 30 min. power backup- 2 Refrigerator- 1 No. Estimated cost- INR 7, 00,000/- (approx) | |
| 8. | Additional Power Requirement | <ul style="list-style-type: none"> Nil | |
| 9. | Manpower Requirement | <ul style="list-style-type: none"> Existing | |
| 10. | Demand Potential | In view of amendments in international standards for Toy Testing (EN-71-Part-III/IS-9873-Part-III) as well as demand for analysis of metals and alloys from MSMEs, BIS and other govt. organizations, there appears to be a strong demand for above facilities | |
| 11. | Any Other Information | <ul style="list-style-type: none"> National / International training for the officers would be required Besides above areas, testing for essential oils, chemicals (organic and inorganic), pesticide residues, water testing, cosmetics, foods, mineral, ores and generation of standard metal samples can also be performed with the help of above instruments. | |

*Note: The estimated cost of instruments/equipments is based on the information collected from either the secondary research or the authenticated suppliers in certain cases and is for indicative purpose only

Annexure VI: Select List of Recognitions and standards

a) Sample List of Recognitions from National Organizations

- NABL
- BIS
- DGS & D (Directorate General of Supplies and Disposals)
- RITES
- Ministry of Health and Family Welfare
- Export Inspection Council of India
- Food Corporation of India
- Airports Authority of India
- APEDA
- DGMS
- ITBP and Armed Forces
- Director General of Civil Aviation
- Khadi and Village Industries Commission
- Department of Biotechnology (DBT)
- Central Insecticides Board
- AGMARK

Source: Shriram Institute for Industrial Research

b) Sample List of International Quality Standards

| Area | Standard |
|---|--------------------|
| General Requirements of Competence of Test and Calibration Laboratories | ISO/IEC 17025:2005 |
| Quality Management Systems | ISO 9001 |
| Inspection and Test Quality System | AS9003 |
| Food Safety Management Systems | ISO 22000 |
| Aerospace Design, Development, Installation and Servicing | AS 9100 |
| Aerospace Requirement for Stockist Distributors | AS9120 |
| Voluntary Industry Distributor Accreditation | AC 00-56 |
| Occupational Health and Safety | OHSAS 18001 |
| Environmental Management Systems | ISO 14001 |
| Automotive Industry Standard | ISO/TS 16949 |
| Telecommunications Industry | TL9000 |

Source: National Quality Assurance, USA

References

a) International Institutes

- United Nations Industrial Development Organization (UNIDO)
- National Quality Assurance, USA: <http://www.nqa-usa.com>
- BAM-Federal Institute for Materials Research and Testing:
<http://www.bam.de/en/kompetenzen/fachabteilungen/>
- Korea Testing & Research Institute: <http://www.kotric.or.kr/>
- Sweden National Testing and Research Institute:
<http://www.sp.se/en/Sidor/default.aspx>

b) Indian Institutes

- MSME Testing Centers Websites
 - Shriram Institute for Industrial Research: <http://www.shriraminstitute.org/>
 - Federation of Indian Micro and Small & Medium Enterprises (FISME)
-



Ministry of Micro, Small and Medium Enterprises

International Cooperation Scheme

- 1) Simple Analysis of the scheme (for simplification and improvement)
- 2) Simplified Application Form
- 3) Revised Feedback Form (Bill of payment format appears to be simple and same should be continued)

4) Simple Analysis of International Cooperation Scheme

| Stage | Elements /Criteria | Constraints/Limitation | Options for simplification |
|----------------------------|------------------------------------|---|---|
| Design | Scope/Objective | Limited in scope with prime focus on marketing activities. | Can be made comprehensive to include different elements of international cooperation such as joint research projects, conducting studies and short term international consultancy assignments, technology events or meets |
| | | Similar to many other MDA schemes | Exhibition component 5.2.2 and 5.2.3 could be dropped from eligible activity lines |
| | Financial /Technical Limit | Small allocation for international resource person | The overall financial limit for resource person from abroad (INR 50,000- Section 5.2.4) should be revised upwards to INR 200000 as it normally include air travel, professional fee, boarding and other charges |
| Application Process | Target Group | | |
| | Access/Contact/Sub mission Point | Centralised, unclear and inaccessible | Email/number/contact details of Director (International Cooperation)for queries and submission of application should be made available. MSME DI could also be made the point of application submission till its made fully online. |
| | Documentation | Too Many (10 annex forms are required in the whole life cycle) | Clear distinction between application (Pre Event) stage and Reimbursement (post event) stage should be made. Annexe I B , IC and ID should be dropped/combined with the application form. Actual Mobilisation of entrepreneurs happen only after the approval of the event. The Annexure IIA, IIB, IIC, and IIIA can be consolidated so that applicants need to submit a single document with all relevant details and signed by all concerned stakeholders (intermediary, individual participants etc) |
| Delivery | Timeline | Not Clear | Approval should be granted at least 3 months from the event date. Last minute (2 wk/3 wk in advance) approval serve no real purpose of achieving scheme objective. |
| | Transparency of selection criteria | Subjective , no criteria outlined for eligible MSMEs | Either frame appropriate criteria for decision making or make it first come first serve basis if applicant organization meets the minimum eligibility criteria |
| | Decision making Level | SSC headed at Jt. Secretary Level | All processes could be handled at DI level ; if the criteria are made transparent . In case it has to be approved by the current screening committee, specific time periods should be fixed for SSC and duly published on ministry websites |
| | Payment | No Provision for advance payment ; 100% on reimbursement basis makes the scheme un attractive | As the objective is to facilitate enterprise access to international knowledge; at least 50% should be paid in advance. This is more so; as application is made by one organisation and doesn't involve coordination with many individual enterprises. |
| Monitoring | Data Consolidation | No System | All data (applicant and beneficiaries) should be consolidated in a digital format and should be systematically analysed to get trends, impacts and corrective action required. |
| | Systemic Analysis | No System | |



Ministry of Micro, Small and Medium Enterprises

International Cooperation Scheme

APPLICATION FORM

(Scheme has 4 subcomponents. Please write the name of appropriate sub component)

Scheme Sub-component:

| | | |
|--|---|---|
| A. Profile of the Applicant Organization | | |
| 1 | Organization Name | |
| 2 | Category (Please tick as appropriate) | <ul style="list-style-type: none"> ▪ State/Central Govt Organization ▪ Industry Association/Chamber of Commerce ▪ Societies/Trusts/Organization associated with MSME |
| 3 | Organization Contact Details | |
| | Address Line 1 | |
| | Address Line 2 | |
| | Village/Town/City | |
| | State | |
| | Postal Code | |
| | Country | |
| | Tel. No. | |
| | Website url | |
| 4 | Registration Number | |
| | Date of Registration (dd/mm/yyyy) | |
| 5 | Contact Person Details | |
| | Name | |
| | Designation in the Organization | |
| | Email | |
| | Contact Number | |
| 6 | Past Performance | |
| | Have you applied for the scheme before? If yes, please provide the details (name of the event and quantum of assistance received) of the event for last 3 years | |
| | Details about other events/activity of the organization | |

B. Details of the event for which assistance is being sought for

| D. Details of the event for which assistance is being sought for: | | |
|---|--|---|
| 1 | Category (Tick the appropriate one) | International Exhibitions/ Buyer-Seller Meets / Business Delegation/ Conferences/Seminars |
| 2 | Nature (Please tick) | Organization /Participation |
| 3 | Name | |
| 4 | Date | |
| 5 | Venue (City and Country) | |
| 6 | Host /Counterpart Organization | |
| 7 | Brief Description , purpose and expected outcome (Max 200 words) | |

C. Estimated Budget of the Event

(Please refer para 5.2 of the scheme guideline for eligible cost heads, level of support and maximum limit)

| No. | Cost Head | Expenditure | Income/Contribution | | | Assistance being sought under the scheme | Remarks , if Any |
|-------|-----------|-------------|--------------------------|-----------------------------------|---|--|------------------|
| | | | Applicant's Organization | Participants Contribution, if any | Assistance from any other sources (if applicable) | | |
| 1 | | | | | | | |
| 2 | | | | | | | |
| .. | | | | | | | |
| .. | | | | | | | |
| Total | | | | | | | |

D. If you are applying for Subcomponent 5.2.1, 5.2.2 or 5.2.3, please provide the tentative list of participants (MSME entrepreneurs/ office bearers)

[illegible]

Resolved that the (name of Association/Organisation) would apply to the Ministry of Micro, Small and Medium Enterprises (MSME) under its International Cooperation scheme for seeking assistance for organising / participating in (details of the event) and for that purpose, (name of Association/Organisation) do hereby authorise Mr/Mrs/Ms (Name of the authorised person) working as (Designation of the authorised person) to apply to the Ministry of MSME, on behalf and in the name of the aforesaid Association/Organisation and also to execute, sign such agreement, certificate, statement, undertaking, declaration, receipt, deeds, instruments, and other writings whatsoever on behalf of the aforesaid Association/Organisation, as may be required for availing of the said assistance under the International Cooperation scheme. The agreements, etc. so executed/signed by the aforesaid authorised person shall be binding on (Name of Association / Organization).

We further hereby confirm that

- 1) the primary objective of our organization is promotion and development of MSME,
- 2) our organization has been engaged in such activities for at least last 3 years and have a good track record and
- 3) The organization maintains regular audited accounts and same is available for the past 3 years.

All information provided in this form and the documents submitted with it are true and correct to the best of my knowledge and belief.

Authorized Signatory

Name and Designation

Seal of the Association /Organization

Documents to be submitted:

- 1) Documents/correspondence/brochures/invitation letters for the proposed event

Instructions:

1. The application along with relevant documents should be submitted to:
Director (International Cooperation)
Ministry of Micro, Small and Medium Enterprises
Room No 123, Udyog Bhawan, Rafi Marg, New Delhi – 110011
2. Application should be submitted at least 4 months in advance for the event in India and 5 Months for the events abroad.
3. If the space provided is insufficient, a separate sheet may be used. Where information is not yet available or not applicable, please indicate accordingly.
4. Decision (Approval/otherwise) will be communicated within 30 days of the receipt of complete application.

POST EVENT (CLAIM FORM)



Ministry of Micro, Small and Medium Enterprises

International Cooperation Scheme

FEEDBACK REPORT FORM

To be submitted by Applicant Organization along with bill for payment

| E. Details of the event for which assistance was taken | |
|---|--|
| Name | |
| Date | |
| Venue (City and Country) | |
| Host /Counterpart Organization | |
| Main outcome (Max 200 words) | |
| Number of Visitors /participants | |

| F. Key areas in which event benefitted the participants | |
|---|---|
| Technology transfer <small>Details of new technologies noticed, sectors, contact details etc</small> | |
| Joint Venture & Collaborations | |
| New Business Opportunity | Number of export enquiries generated: Value of export enquiry generated: |
| Networking and Knowledge Enhancement | |

| G. List of Participants (Enterprise and applicant organizations) | | | | |
|---|--------------|---|---|--------------------------------|
| Name | Organization | Type of enterprise (Micro/ Small/ Medium) | Special Category (SC/ST/ Women/ North East) | Address including email, phone |
| | | | | |
| | | | | |

| | | | | |
|--|--|--|--|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

H. **In case of conference/workshop** , please submit a brief summary of discussion , recommendations, conclusion and action points

| I. List of Resource Persons and Participants – only in the case of conference/seminar | | | | |
|--|--------------------|---------------------|----------------|---------------------|
| Name | Designation | Organization | Address | Email, Phone |
| | | | | |
| | | | | |

F. Photos/Recordings/Presentations/ Publication, any other useful information may also be attached along with the feedback report.

Authorized Signatory

Name and Designation

Seal of the Association /Organization



Ministry of Micro, Small and Medium Enterprises

International Cooperation Scheme

FEEDBACK REPORT FORM

To be filled by Individual participants separately and should be submitted by applicant organization along with bill of payment

| | |
|--|--|
| Name of the participating unit | |
| Category (Please tick as appropriate) | <ul style="list-style-type: none">▪ Micro▪ Small▪ Medium▪ SC/ST/WOMEN/NE/HILLY AREA |
| Organization Contact Details | |
| Address Line 1 | |
| Address Line 2 | |
| Village/Town/City | |
| State | |
| Postal Code | |
| Country | |
| Tel. No. | |
| Website url | |
| Contact Person Details | |
| Name | |
| Designation in the Organization | |
| Email | |
| Contact Number | |
| Comments and Feedback on key benefit | |

I hereby confirm that I participated in the through(name of the applicant organization) from(date) at(city, country) and has spend Rsas our contribution. The above said information is correct to the best of my knowledge.

Signature

Bill of payment and Pre Receipt



Office of Development
Commissioner
Ministry of MSME
'A' Wing, 7th Floor
Nirman Bhawan
New Delhi – 110108, India
PABX No: 011-23063800
I: www.dcmsme.gov.in

Deutsche Gesellschaft für
Internationale Zusammenarbeit
(GIZ) GmbH
MSME Umbrella Programme
B – 5/1, Safdurjung Enclave
New Delhi- 110029, India
T: +91-11-49495353
F: +91-11-49495391
E: amit.kumar@giz.de
I: www.giz.de